

ORIGINAL



0000138293

BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

2012 JUL 31 P 4:39

AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF  
CLEAR SPRINGS UTILITY COMPANY, INC.  
FOR AUTHORITY TO INCUR LONG-TERM  
DEBT.

DOCKET NO. W-01689A-11-0401

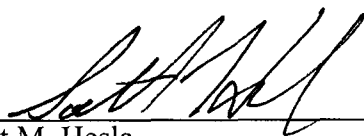
IN THE MATTER OF THE APPLICATION OF  
CLEAR SPRINGS UTILITY COMPANY, INC.  
FOR A RATE INCREASE.

DOCKET NO. WS-01689A-11-0402

**STAFF'S NOTICE OF FILING  
SURREBUTTAL TESTIMONY**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files the Surrebuttal Testimony of Staff witnesses Jeffrey M. Michlik and Dorothy M. Hains in the above-referenced matters.

RESPECTFULLY SUBMITTED this 31<sup>st</sup> day of July, 2012.

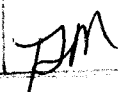
  
\_\_\_\_\_  
Scott M. Hesla  
Staff Attorney, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Arizona Corporation Commission

**DOCKETED**

JUL 31 2012

DOCKETED BY



Original and thirteen (13) copies  
of the foregoing were filed  
this 31<sup>st</sup> day of July, 2012, with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

1 Copies of the foregoing were mailed this  
2 31<sup>st</sup> day of July, 2012, to:

3 Steve Wene, Esq.  
4 MOYES SELLERS & HENDRICKS LTD.  
5 1850 N. Central Avenue, Suite 1100  
6 Phoenix, Arizona 85004

7 Clear Springs Utility Company, Inc.  
8 Attn: Bonnie O'Connor  
9 Southwestern Utility Management  
10 P.O. Box 85160  
11 Tucson, Arizona 85754

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35



**BEFORE THE ARIZONA CORPORATION COMMISSION**

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. WS-01689A-11-0402  
CLEAR SPRINGS UTILITY COMPANY, INC. )  
FOR AN INCREASE IN RATES )

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. W-01689A-11-0401  
CLEAR SPRINGS UTILITY COMPANY, INC. )  
FOR AUTHORITY TO INCUR LONG-TERM DEBT)

SURREBUTTAL

TESTIMONY

OF

JEFFREY M. MICHLIK

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 31, 2012

**EXECUTIVE SUMMARY**  
**CLEAR SPRINGS UTILITY COMPANY, INC.**  
**DOCKET NOS. WS-01689A-11-0402 AND W-01689A-11-0401**

Clear Springs Utility Company, Inc. ("Company") is a certificated Arizona public service corporation that provided water and wastewater services during 2010 in Cochise County, Arizona. On November 3, 2011, the Company filed an application for permanent rate increase, with a test year ending December 31, 2010, for the water and wastewater divisions. Also on November 3, 2011, the Company filed an application requesting authority to incur long-term debt to make system improvements. A Procedural Order, dated June 5, 2012, consolidated the rate and financing applications.

The Company's rebuttal testimony for the water division requests an \$84,332 (50.12 percent) revenue increase to provide a \$25,788 operating income for a 50.00 percent rate of return on a \$51,575 FVRB which is its original cost rate base ("OCRB"), and a surcharge to collect \$42,648 annually for debt service, property and income taxes and debt service reserve on its proposed Water Infrastructure Finance Authority of Arizona ("WIFA") loan.

The Company's rebuttal testimony for the wastewater division requests a \$0 (0.00 percent) revenue increase to provide an \$8,008 operating income on a negative \$17,048 FVRB.

Staff's surrebuttal revenue requirement for the water division of \$226,902 represents an increase of \$58,652, or 34.86 percent, over test year revenue of \$168,250 for a 30.00 percent rate of return on a Staff adjusted FVRB of \$21,364. Staff's surrebuttal revenue requirement represents a \$10,879 increase from its direct testimony. In addition, Staff recommends granting the Company authorization to charge an infrastructure surcharge to become effective at a date and in a manner as subsequently authorized by the Commission. The estimated annual surcharge revenue is \$31,617.

Staff's surrebuttal revenue requirement for the wastewater division of \$47,802 represents an increase of \$0, or 0.00 percent, over test year revenue of \$47,802. Staff's adjusted FVRB is negative \$16,893. Calculating a rate of return on a negative rate base is not meaningful. Accordingly, Staff's recommended revenue requirement is based on a cash flow analysis. Staff's surrebuttal revenue requirement is the same as in its direct testimony.

The surrebuttal testimony of Staff witness Mr. Jeffrey M. Michlik addresses rate base, operating income, revenue requirement and rate design issues. Staff's surrebuttal testimony also addresses the rebuttal testimony of Company witness Sonn S. Rowell on the issues of:

- a. Customer Security Deposits,
- b. Changes to AIAC and CIAC.
- c. Water Testing Expenses.
- d. Cash Flow Statements.
- e. Billing Determinants for Infrastructure Surcharge Estimation.
- f. Separating the Company's divisions for purposes of obtaining a loan.

In addition to those recommendations is its direct testimony, Staff recommends:

That the Company track CIAC by plant account number on a going-forward basis.

That the Company record a regulatory liability for any infrastructure surcharge collected by the Company for the debt service reserve fund and the associated property and income taxes.

## TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION .....	1
II. PURPOSE OF SURREBUTTAL TESTIMONY .....	1
III. CONSUMER SERVICES .....	2
IV. SUMMARY OF PROPOSED AND RECOMMENDED REVENUES .....	2
V. RESPONSE TO THE REBUTTAL TESTIMONY OF SONN S. ROWELL.....	4
A. Customer Security Deposits.....	4
B. Changes to AIAC and Contributions-in-aid-of Construction ("CIAC") .....	6
C. Water Testing Expenses.....	8
D. Cash Flow Statement.....	8
E. Billing Determinants for Infrastructure Surcharge Estimation.....	13
F. Separating the Company's divisions for purposes of obtaining a loan.....	14

## **SURREBUTTAL SCHEDULES**

### ***CLEAR SPRINGS UTILITY COMPANY, INC. – WATER DIVISION***

Revenue Requirement.....	JMM-W1
Gross Revenue Conversion Factor.....	JMM-W2
Rate Base – Original Cost.....	JMM-W3
Summary of Original Cost Rate Base Adjustments.....	JMM-W4
Rate Base Adjustment No. 1 -- Post Test Year Plant.....	JMM-W5
Rate Base Adjustment No. 2 -- Plant Not Used and Useful.....	JMM-W6
Rate Base Adjustment No. 3 – Customer Deposits.....	JMM-W7
Rate Base Adjustment No. 4 – Cash Working Capital.....	JMM-W8
Rate Base Adjustment No. 5 – Advances In Aid of Construction.....	JMM-W9.1
Rate Base Adjustment No. 6 – Contributions In Aid of Construction.....	JMM-W9.2
Operating Income Statement -- Adjusted Test Year and Staff Recommended.....	JMM-W10
Summary of Operating Income Statement Adjustments – Test Year.....	JMM-W11
Operating Income Adj. No. 1 – Water Testing Expense.....	JMM-W12
Operating Income Adj. No. 2 – Depreciation Expense.....	JMM-W13
Operating Income Adj. No. 3 – Property Tax Expense.....	JMM-W14
Operating Income Adj. No. 4 – Income Tax Expense.....	JMM-W15
Operating Income Adj. No. 5 – Customer Deposit Interest.....	JMM-W16
Cash Flow Analysis.....	JMM-W17
Financing Analysis.....	JMM-W18
Calculation of Infrastructure Surcharge Amount.....	JMM-W19
Rate Design.....	JMM-W20
Typical Bill Analysis.....	JMM-W21
Typical Bill Analysis with Surcharge.....	JMM-W22



***CLEAR SPRINGS UTILITY COMPANY, INC. – WASTEWATER DIVISION***

Revenue Requirement.....	JMM-WW1
Gross Revenue Conversion Factor.....	JMM-WW2
Rate Base – Original Cost.....	JMM-WW3
Summary of Original Cost Rate Base Adjustments.....	JMM-WW4
Rate Base Adjustment No. 1 – Reclassification of Plant.....	JMM-WW5
Rate Base Adjustment No. 2 – Plant Not Used and Useful .....	JMM-WW6
Rate Base Adjustment No. 3 – Cash Working Capital .....	JMM-WW7
Rate Base Adjustment No. 4 – Customer Deposits .....	JMM-WW8.1
Rate Base Adjustment No. 5 – Advances In Aid of Construction.....	JMM-WW8.2
Rate Base Adjustment No. 6 – Contributions In Aid of Construction .....	JMM-WW8.3
Operating Income Statement – Adjusted Test Year and Staff Recommended.....	JMM-WW9
Summary of Operating Income Statement Adjustments – Test Year.....	JMM-WW10
Operating Income Adj. No. 1 -- Wastewater Testing Expense .....	JMM-WW11
Operating Income Adj. No. 2 – Depreciation Expense .....	JMM-WW12
Operating Income Adj. No. 3 – Property Tax Expense .....	JMM-WW13
Operating Income Adj. No. 4 – Income Tax Expense.....	JMM-WW14
Operating Income Adj. No. 5 – Customer Deposit Interest .....	JMM-WW15
Cash Flow Analysis .....	JMM-WW16
Rate Design.....	JMM-WW17
Typical Bill Analysis .....	JMM-WW18

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Jeffrey M. Michlik. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Jeffrey M. Michlik that filed direct testimony regarding rate design in this case?**

A. Yes, I am.

**II. PURPOSE OF SURREBUTTAL TESTIMONY**

**Q. What is the purpose of your surrebuttal testimony in this proceeding?**

A. The purpose of my surrebuttal testimony in this proceeding is to respond on behalf of Staff to the rebuttal testimony of Clear Springs Utility Company, Inc. ("Clear Springs" or "Company") witness Sonn S. Rowel and to present Staff's surrebuttal position regarding rate base, operating income, revenue requirement and rate design issues. Staff witness Dorothy Hains is presenting the engineering analysis and recommendations.

**Q. Has Staff attempted to address every issue raised by the Company in its rebuttal testimony?**

A. No. Staff's silence on any particular issue introduced in the Company's rebuttal testimonies does not indicate that Staff agrees with the stated rebuttal position on the issue, but rather it relies on its direct testimony.

1 **Q. Have you prepared any schedules to accompany your surrebuttal testimony?**

2 A. Yes. I prepared Surrebuttal Schedules JMM-W1 to JMM-W22 for the water division and  
3 JMM-WW-1 to JMM-WW-19 for the wastewater division to reflect Staff's surrebuttal  
4 position. The surrebuttal schedules reflect the Company's application as filed, not its  
5 rebuttal position.

6  
7 **III. CONSUMER SERVICES**

8 **Q. Please provide a brief summary of customer complaints received by the Commission**  
9 **regarding the Company.**

10 A. The Commission's Consumer Services database for the Company from January 1, 2009,  
11 to July 26, 2012, shows the following:

12 2012 -- One complaint (defective equipment), 140 opinions all opposed to the rate case,  
13 and zero inquiries.

14 2011 -- Two complaints (one billing and one new service), zero opinions, and zero  
15 inquiries.

16 2010 -- Four complaints (quality of service), zero opinions, and zero inquiries.

17 2009 -- One complaint (billing), zero opinions, and zero inquiries.

18  
19 All complaints have been resolved and closed.

20  
21 **IV. SUMMARY OF PROPOSED AND RECOMMENDED REVENUES**

22 **Q. What rebuttal revenue requirement is Clear Springs proposing?**

23 A. For the water division, the Company's rebuttal testimony requests an \$84,332 (50.12  
24 percent) revenue increase to provide a \$25,788 operating income for a 50.00 percent rate  
25 of return on a \$51,575 fair value rate base ("FVRB") which is its original cost rate base  
26 ("OCRB"), and a surcharge to collect \$42,648 annually for debt service, property and

1 income taxes and debt service reserve on its proposed Water Infrastructure Finance  
2 Authority of Arizona ("WIFA") loan.

3  
4 For the wastewater division, the Company's rebuttal testimony requests a \$0 (0.00  
5 percent) revenue increase to provide an \$8,088 operating income. Calculating a rate of  
6 return on its proposed negative \$17,048 FVRB is not meaningful.

7  
8 **Q. Please provide a summary of Staff's surrebuttal recommendations.**

9 A. For the water division, Staff's surrebuttal revenue requirement of \$226,902 represents an  
10 increase of \$58,652, or 34.86 percent, over test year revenue of \$168,250 for a 30.00  
11 percent rate of return on a Staff adjusted FVRB of \$21,364. Staff's surrebuttal revenue  
12 requirement represents a \$10,879 increase from its direct testimony. In addition, Staff  
13 recommends granting the Company authorization to charge an infrastructure surcharge to  
14 become effective at a date and in a manner as subsequently authorized by the  
15 Commission. The estimated annual surcharge revenue is \$31,617. Staff's recommended  
16 rates (without surcharge) would increase the typical residential water bill with median  
17 usage of 3,318 gallons by \$2.93, or 18.94 percent, from \$15.47 to \$18.39. Staff's  
18 recommended rates (with the surcharge) would increase the typical residential water bill  
19 with median usage of 3,318 gallons by \$7.04 or 45.52 percent, from \$15.47 to \$22.50.

20  
21 For the wastewater division, Staff's surrebuttal revenue requirement of \$47,802 represents  
22 no increase over test year revenue of \$47,802. Staff's adjusted FVRB is negative \$16,893.  
23 Calculating a rate of return on a negative rate base is not meaningful. Accordingly, Staff's  
24 recommended revenue requirement is based on a cash flow analysis. Staff's surrebuttal  
25 revenue requirement is the same as in its direct testimony. Staff's recommended rates

1 would decrease the typical residential wastewater bill by \$0.24, or 2.62 percent, from  
2 \$9.24 to \$9.00.

3  
4 **Q. Explain the primary reason that Staff's surrebuttal revenue requirement for the**  
5 **water division differs from that in its direct testimony.**

6 A. The primary way in which Staff's surrebuttal position differs from its direct testimony is  
7 an increase in the rate of return from 11.50 percent to 30.00 percent. As noted in the  
8 Company's rebuttal testimony,<sup>1</sup> the Company has a nominal rate base rendering the rate of  
9 return less meaningful. Accordingly, Staff increased the rate of return to provide a  
10 positive net income from base rates. The increase in base rates is offset by a reduction in  
11 the infrastructure surcharge to provide an appropriate level of cash flow with the proposed  
12 loan.

13  
14 **V. RESPONSE TO THE REBUTTAL TESTIMONY OF SONN S. ROWELL**

15 **A. Customer Security Deposits**

16 **Q. Did the Company present any reason in its rebuttal testimony to support its position**  
17 **to not deduct customer security deposits in the calculation of rate base?**

18 A. No. As noted in Staff's direct testimony, customer security deposits represent non-  
19 investor-provided capital; and therefore, they should be a deduction in the calculation of  
20 rate base and the interest paid to customers should be included as an operating expense.

21  
22 **Q. Is Staff's recommendation consistent with prior Commission decisions?**

23 A. Yes. The Commission in Decision No. 72026 (Litchfield Park Service Company),  
24 Decision No. 72251 (Bella Vista Water Company, Inc.), and more recently in Decision  
25 No. 73091 (East Slope, Antelope Run and Indiada or ("ESARIN")), the Commission has

---

<sup>1</sup> Sonn S. Rowell Rebuttal at 16.

1 supported Staff's position that customer security deposits are a deduction in the  
2 calculation of rate base and that the associated interest paid to customers on those deposits  
3 should be included in operating expenses.  
4

5 **Q. Please comment further?**

6 A. In the ESARIN case, Decision No. 73091, page 20, Finding of Facts 104 and 105 state:

7  
8 The Commission has adopted Staff's position to deduct Customer Security  
9 Deposits from rate base in prior Commission Decisions. This position is  
10 consistent with NARUC and recognizes that there are no constraints on  
11 the Companies' use of these funds which are provided by ratepayers, and  
12 that the utility should not be permitted to earn a rate of return on any plant  
13 that may be purchased with the non-investor-supplied funds.

14  
15 We find in this case that Staff's position is reasonable and the Customer  
16 Security Deposits should be deducted from rate base with a corresponding  
17 allowance for the associated interest as an operating expense.  
18

19 **Q. Has Staff included interest expense on customer security deposits in operating**  
20 **expenses?**

21 A. Yes.  
22

23 **Q. Does your direct testimony state that you would update your schedules to include**  
24 **customer security deposits based on a 13-month average and the interest expense**  
25 **corresponding with that 13-month average?**

26 A. Yes. Staff used a 13-month customer security deposit balance in its rate base calculation  
27 and to calculate the interest to include in operating expenses. See Surrebuttal Schedules  
28 JMM-W7, JMM-W16, JMM-WW8.1, and JMM-WW14.  
29

1 **Q. Does Staff's surrebuttal make any changes from its direct testimony other than to**  
2 **use the 13-month average balance for customer security deposits?**

3 A. Yes. In its direct testimony, Staff combined Service Line and Meter Installation Charges  
4 with Customer Security Deposits. Service Line and Meter Installation Charges are one  
5 source of advances-in-aid-of-construction ("AIAC"). While AIACs and customer  
6 deposits are both deductions in the calculation of rate base, Staff has reclassified the  
7 Service Line and Meter Installation Charges previously combined with customer deposits  
8 to AIAC, as shown in Surrebuttal Schedules JMM-W4 and JMM-W9.1.  
9

10 **B. Changes to AIAC and Contributions-in-aid-of Construction ("CIAC")**

11 **Q. Did the Company propose several changes to AIAC and CIAC in its rebuttal**  
12 **testimony?**

13 A. Yes.  
14

15 **Q. Specifically, what changes did the Company propose in its rebuttal testimony**  
16 **regarding AIAC and CIAC?**

17 A. The Company adjusted its AIAC and CIAC amounts to reconcile with its accounting  
18 records and transferred some AIAC to CIAC.  
19

20 **Q. What is the Company proposing for the amortization of CIAC?**

21 A. The Company proposes to use a composite rate for amortizing CIAC based on the  
22 expected remaining useful life of the assets funded by AIAC that are subsequently  
23 converted the CIAC. The Company calculated the proposed composite CIAC  
24 amortization rate as the average of two plant accounts. The Company proposes to use its  
25 CIAC amortization rate for "current and future" transfers from AIAC and CIAC.  
26

1     **Q.     What is Staff's response to the Company's CIAC amortization proposal?**

2     A.     Preferably a utility will track AIAC and CIAC funded plant by account allowing the CIAC  
3           amortization to match the useful life to the plant funded by CIAC and AIAC that is  
4           converted to CIAC. Most small utilities do not maintain detailed records to allow tracking  
5           these funds by account, and in those circumstances a composite CIAC amortization is  
6           appropriate. Clear Springs has maintained the necessary records to track the source of  
7           funds by plant account; accordingly, a CIAC amortization for each account is possible and  
8           appropriate.

9  
10          The Company's proposal is a hybrid approach that derives a composite CIAC  
11          amortization rate using only the plant accounts that have CIAC. Staff has accepted the  
12          Company's methodology for purposes of this rate case. However, Staff does not support  
13          the Company's proposal to establish this as an authorized method for future transfers.  
14          Factors not reflected in the CIAC amortization rate proposed in this case may affect the  
15          reasonableness of the Company's proposed 3.03 percent CIAC amortization rate. For  
16          example, future AIAC or CIAC may fund plant in accounts not included in the calculation  
17          of the proposed rate or the terms of main extension agreements may alter the remaining  
18          useful life of plant assets upon conversion from AIAC to CIAC. Also, the Company must  
19          continue to maintain appropriate records to support the method it proposes for these CIAC  
20          amortizations going forward.

21  
22     **Q.     Has Staff made changes to its AIAC, CIAC, and CIAC amortization to reflect the**  
23           **Company's proposal for this rate case?**

24     A.     Yes. See Surrebuttal Schedules JMM-W9, JMM-W16, JMM-WW8, and JMM-WW15.  
25



**C. Water Testing Expenses**

**Q. Has Staff revised its water testing expense based on new information provided by the Company in its rebuttal testimony?**

A. Yes. Staff has revised its water testing expense, for the water division only, upward from \$4,637 in direct testimony to \$5,357 in surrebuttal, as shown in Surrebuttal Schedule JMM-W12.

**D. Cash Flow Statement**

**Q. Does Staff have any response to the Company's assertions that (1) \$10,000 of undesignated cash flow is inadequate; (2) use of depreciation expense to pay debt service strips the Company of a source of funds for other system improvements; and (3) rational utility owners will not enter into loan agreements that require them to pledge personal assets as security and pay 20 percent of the loan payments into a debt service reserve fund?**

A. Yes. As explained in my direct testimony, under the traditional regulatory framework, the required operating income for an investor-owned utility is determined by multiplying rate base by rate of return. Typically, a utility is entitled to a reasonable return on the value of its property and no more. Since a utility incurs expenses in the provision of service, these expenses, when added to the operating income, provide the revenue requirement. Thus, the revenue requirement can be expressed mathematically as: Revenue Requirement = Operating and Maintenance expenses + Depreciation expense + Taxes + Operating Income.

However, ultimately the result must be just and reasonable. The Company asserts that "[T]he rate of return on rate base percentage is still irrelevant due to the low rate base

1 amount.”<sup>2</sup> Staff agrees that when a utility’s rate base is nominal, it is not uncommon for  
2 the rate base/rate of return methodology to result in an operating income that generates a  
3 cash flow insufficient to meet a reasonable level of contingencies. The owners of a small  
4 utility often have no known sources of funds to address contingencies. Therefore, for the  
5 health and safety of the ratepayer, it is reasonable to provide the utility with additional  
6 revenues to provide sufficient cash flow for contingencies. Staff fundamentally agrees  
7 with the Company’s assertion that its rate base is sufficiently small to justify substitution  
8 of a cash flow basis as opposed to a rate base/rate of return method for determining its  
9 revenue requirement. Thus, the amount that constitutes adequate cash flow is the issue in  
10 question.

11  
12 As noted above, Staff’s surrebuttal position differs from its direct testimony primarily in  
13 that it increases the rate of return from 11.50 percent to 30.00 percent to provide a positive  
14 net income from base rates. It also increases uncommitted cash flow (without the  
15 proposed loan or surcharge) to \$18,402, and the increase in base rates is offset by a  
16 reduction in the infrastructure surcharge to provide \$10,000 of cash flow with the  
17 proposed loan and surcharge. See Surrebuttal Schedule JMM-W17.<sup>3</sup>

18  
19 A small rate base means that the utility owners have a small investment in the utility.  
20 Since the owners’ investment is small, the earnings should be correspondingly small.  
21 When the rate base/rate of return methodology is set aside to provide additional revenues,  
22 the purpose is to support the provision of adequate, safe and reliable service for  
23 ratepayers, not to enrich the owners. However, owners are the obvious and immediate  
24 beneficiaries of the additional revenues. No reasonable amount of cash flow can ensure

<sup>2</sup> Sonn S. Rowell Rebuttal at 16.

<sup>3</sup> Surrebuttal Schedule JMM-W17 updates Direct Schedule JMM-W16 to reflect the principal (\$5,630) and interest (\$6,245) the Company’s rebuttal testimony claims for the test year and corrects Net Income calculation on Line No. 47.

1       that cash flow will meet any and every contingency. Therefore, an appropriate level of  
2       cash flow should address a reasonable level of anticipated contingencies under efficient  
3       operations while minimizing the additional revenue that exceeds those that which would  
4       be generated using the rate base/rate of return methodology.

5  
6       Staff has reviewed the Company's operating expenses and concludes that \$10,000 of cash  
7       flow is sufficient to address any reasonable short-term increase in operating expenses.  
8       Contingencies for capital improvements should be financed with long-term capital as  
9       opposed to operating revenues. The Company should effectively manage its cash flow.  
10      Effective cash flow management includes saving excess cash flow when available to  
11      address future unexpected contingencies. For example, if the Company were to save  
12      \$10,000 per year for two years, it would have \$20,000 available at the beginning of year  
13      three for contingencies.

14  
15      Utility owners should be encouraged to invest in plant necessary for the provision of  
16      service. Providing excess returns to investors by using the cash flow method of revenue  
17      requirement sends the wrong message, i.e., a disincentive, by providing a higher return on  
18      a lower investment.

19  
20      In circumstances where the cash flow method supplants the rate base/rate of return method  
21      for determining the revenue requirement, the Company's concern that using depreciation  
22      expense to fund debt service strips a source of funds available for plant improvements is  
23      misplaced. First, to be clear, cash flow is generated by collection of cash, and  
24      depreciation expense does not directly provide collection of any cash flow. The amount of  
25      cash a utility receives is independent of the amount of depreciation expense recorded.  
26      When depreciation expense is included as a component of the revenue requirement, the

1 revenue generated to recover that depreciation component of the revenue requirement  
2 provides cash flow. Adding depreciation expense to income is simply the easiest and most  
3 common method for calculating the amount of cash flow available.

4  
5 Second, debt service payments (principal and interest) represent the funding of plant under  
6 construction as well as existing plant. The former is not a normal component of rate base  
7 or the revenue requirement. The absence of sufficient investment by the owners  
8 contributes to the need for use of the cash flow method of determining the revenue  
9 requirement to cover debt service on plant under construction. That is, if rate base was  
10 greater, the equity higher and the debt lower, the need to supplant the rate base/rate of  
11 return method with the cash flow method may be unnecessary.

12  
13 Furthermore, it is the responsibility of owners to invest in plant. Ratepayers should not be  
14 placed in the position of funding plant via excess earnings and then having to provide a  
15 return of and return on that plant. Depreciation expense represents the removal of  
16 investment. That is the reason accumulated depreciation is a deduction in the calculation  
17 of rate base. Using the available cash flow to fund debt service requires the Company to  
18 reinvest amounts recovered through depreciation expense. Requiring the Company to  
19 make this reinvestment is compelling in a circumstance where the cash flow method of  
20 determining the revenue requirement exists.

21  
22 Clear Springs as a public service corporation has an obligation to serve its customers and  
23 to provide service that is adequate, safe and reliable. The Company's management has  
24 discretion in choosing the manner to achieve the required level of service. If the  
25 Company's owners conclude that it is irrational to enter into loan agreements that require  
26 them to pledge personal assets as security and pay 20 percent of the loan payments into a

1 debt service reserve fund to obtain funds for needed capital improvements, they have the  
2 obligation to find acceptable funding alternatives.

3  
4 However, Staff's recommendations provide all the funding necessary for the Company to  
5 meet its obligations, thus, the Company would have reason and incentive to obtain the  
6 proposed loan. By definition, \$10,000 of uncommitted cash flow provides coverage of all  
7 cash requirements and \$10,000 for unspecified contingencies. It also provides for a  
8 159.89 percent rate of return. Staff recommendations do not, as the Company suggests  
9 "sets the Company up to fail"<sup>4</sup> or place it in the position of "taking more financial  
10 obligation than it could responsibly manage."<sup>5</sup> In fact, to the extent that the infrastructure  
11 surcharge provides coverage for the WIFA debt service reserve fund, those surcharge  
12 collections should be recorded as a regulatory liability to be returned to ratepayers as  
13 specified by the Commission. Staff's cash flow analysis (with the proposed loan and  
14 surcharge) includes \$10,630 (\$8,206 for the debt service reserve fund and \$2,424 for the  
15 associated property and income taxes) annual provision for a WIFA debt service reserve  
16 fund. See Surrebuttal Schedules JMM-W17 and JMM-W19. In order to segregate and  
17 provide for tracking of the regulatory liability, Staff calculated two separate components  
18 for infrastructure surcharge. The estimated non-liability component for a 5/8 x 3/4-inch  
19 customer is \$2.73 per month and the liability component is \$1.38 per month.

20  
21 A regulatory liability is an amount ratepayers can expect to receive as a benefit in the  
22 future via various means (refunds, rate base reductions, operating expense reductions, etc.)  
23 as determined by the Commission at a later time (future rate case). Treatment of  
24 surcharge collections as a regulatory liability is appropriate because the debt service  
25 reserve funds, while requiring cash payments, are not a component of the revenue

---

<sup>4</sup> Sonn S. Rowell Rebuttal at 15.

<sup>5</sup> Sonn S. Rowell Rebuttal at 16.

1 requirement. The debt service reserve is essentially a savings account that accumulates to  
2 the benefit of the utility owners. That is, since ratepayers should not be required to  
3 provide funds for utility owners to accumulate savings, any additional funds collected  
4 from ratepayers to satisfy the cash flow requirement of the WIFA debt service reserve  
5 fund should be treated as a regulatory liability. Minimizing the regulatory liability is one  
6 reason that an infrastructure surcharge should not become effective until the Company  
7 begins drawing on a loan and repayment obligation is initiated.

8  
9 **E. Billing Determinants for Infrastructure Surcharge Estimation**

10 **Q. Does Staff have a response to the Company's concern that Staff included inactive or**  
11 **unused meters to calculate an estimate for the infrastructure surcharge?**<sup>6</sup>

12 A. Yes. The Company correctly notes that Staff used billing determinates for the surcharge  
13 estimate that differ from the actual test year billing determinants. This difference would  
14 have no impact on the surcharge that would eventually be approved since Staff's  
15 recommendation in direct testimony as presented below recommends using the actual  
16 billing determinants at the time of the loan.

17  
18 Directing Staff to calculate the appropriate WIFA surcharge and prepare  
19 and file a recommended order for Commission consideration within 60  
20 days of the filing of a surcharge implementation request by the Company  
21 and to calculate the surcharge based on the actual loan debt service  
22 (interest and principal) payments and *using the current customer count* at  
23 the time of the loan closing to provide the cash flow adopted in this  
24 proceeding (emphasis added).  
25

26 The billing determinants and actual loan terms may vary from the estimate. To remove  
27 any disagreement with the Company, Staff has recalculated the two components of the

---

<sup>6</sup> Sonn S. Rowell Rebuttal at 15.

1 infrastructure surcharge estimate using the Company's proposed billing determinants. See  
2 Surrebuttal Schedule JMM-W19.

3  
4 **F. Separating the Company's divisions for purposes of obtaining a loan**

5 **Q. Does Staff have a response to the Company's comments regarding Staff including**  
6 **operational and statistical percentages from the sewer division in an analysis for the**  
7 **loan for the water division?<sup>7</sup>**

8 A. Yes. Staff has determined on a stand-alone basis for the water and sewer divisions:  
9 revenue requirement, operating income and cash flow. Thus, cash flow from the sewer  
10 division was not used to calculate the cash flow required for the water division. However  
11 since the water and sewer divisions are only components of one legal entity, and the legal  
12 entity will pledge its assets and be obligated for the loans, Staff has calculated debt service  
13 coverage ("DSC") for Clear Springs as a whole. See Surrebuttal Schedule JMM-W18.  
14 This calculation in no way creates a subsidy between the water and sewer divisions.

15  
16 **Q. Does this conclude your surrebuttal testimony?**

17 A. Yes, it does.

---

<sup>7</sup> Sonn S. Rowell Rebuttal at 15-16.

**Clear Springs Utility Company, Inc. - Water Division**  
**Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401**  
**Test Year Ended December 31, 2010**

Surrebuttal Testimony of Jeffrey M. Michlik

**TABLE OF CONTENTS TO SCHEDULES**

<u>SCH #</u>	<u>TITLE</u>
JMM-W1	REVENUE REQUIREMENT
JMM-W2	GROSS REVENUE CONVERSION FACTOR
JMM-W3	RATE BASE - ORIGINAL COSTS
JMM-W4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-W5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - POST TEST YEAR PLANT
JMM-W6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - PLANT NOT USED AND USEFUL
JMM-W7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CUSTOMER DEPOSITS
JMM-W8	ORIGINAL COST RATE BASE ADJUSTMENT # 4 - CASH WORKING CAPITAL
JMM-W9.1	ORIGINAL COST RATE BASE ADJUSTMENT # 5 - ADVANCES IN AID OF CONSTRUCTION
JMM-W9.2	ORIGINAL COST RATE BASE ADJUSTMENT # 6 - CONTRIBUTIONS IN AID OF CONSTRUCTION
JMM-W10	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-W11	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-W12	OPERATING INCOME ADJUSTMENT # 1 - WATER TESTING EXPENSE
JMM-W13	OPERATING INCOME ADJUSTMENT # 2 - DEPRECIATION EXPENSE
JMM-W14	OPERATING INCOME ADJUSTMENT # 3 - PROPERTY TAX EXPENSE
JMM-W15	OPERATING INCOME ADJUSTMENT # 4 - INCOME TAX EXPENSE
JMM-W16	OPERATING INCOME ADJUSTMENT # 5 - CUSTOMER DEPOSIT INTEREST
JMM-W17	CASH FLOW ANALYSIS
JMM-W18	FINANCING ANALYSIS
JMM-W19	CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT
JMM-W20	RATE DESIGN
JMM-W21	TYPICAL BILL
JMM-W22	TYPICAL BILL WITH SURCHARGE



Clear Springs Utility Company, Inc. - Water Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-W1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 96,746	\$ 21,364
2	Adjusted Operating Income (Loss)	\$ (41,272)	\$ (38,867)
3	Current Rate of Return (L2 / L1)	-42.66%	-181.93%
4	Required Rate of Return	35.00%	30.00%
5	Required Operating Income (L4 * L1)	\$ 33,861	\$ 6,409
6	Operating Income Deficiency (L5 - L2)	\$ 75,133	\$ 45,277
7	Gross Revenue Conversion Factor	1.3100	1.2954
8	Required Revenue Increase (L7 * L6)	\$ 98,423	<b>\$ 58,652</b>
9	Adjusted Test Year Revenue	\$ 168,250	\$ 168,250
10	Proposed Annual Revenue	\$ 266,673	\$ 226,902
11	Required Increase in Revenue (%)	58.50%	34.86%

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-W3 and JMM-W10

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 18)	22.8043%			
5	Subtotal (L3 - L4)	77.1957%			
6	Revenue Conversion Factor (L1 / L5)	1.295410			
<u>Calculation of Effective Tax Rate:</u>					
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 48)	15.4081%			
11	Effective Federal Income Tax Rate (L9 x L10)	14.3345%			
12	Combined Federal and State Income Tax Rate (L8 + L11)		21.3025%		
<u>Calculation of Effective Property Tax Factor</u>					
13	Unity	100.0000%			
14	Combined Federal and State Income Tax Rate (L12)	21.3025%			
15	One Minus Combined Income Tax Rate (L13-L14)	78.6975%			
16	Property Tax Factor (JMM-W14, L27)	1.9084%			
17	Effective Property Tax Factor (L15*L16)		1.5019%		
18	Combined Federal and State Income Tax and Property Tax Rate (L12+L17)			22.8043%	
19	Required Operating Income (Schedule JMM-W1, Line 5)	\$ 6,409			
20	Adjusted Test Year Operating Income (Loss) (JMM-W10, L35)	(38,867)			
21	Required Increase in Operating Income (L19 - L20)		\$ 45,277		
22	Income Taxes on Recommended Revenue (Col. [C], L47)	\$ 301			
23	Income Taxes on Test Year Revenue (Col. [A], L47)	(11,955)			
24	Required Increase in Revenue to Provide for Income Taxes (L22 - L23)		12,256		
25	Recommended Revenue Requirement (Schedule JMM-W1, Line 10)	\$ 226,902			
26	Uncollectible Rate	0.0000%			
27	Uncollectible Expense on Recommended Revenue (L25*L26)	\$ -			
28	Adjusted Test Year Uncollectible Expense	\$ -			
29	Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)		-		
30	Property Tax with Recommended Revenue (Schedule JMM-W14, L21)	\$ 10,752			
31	Property Tax on Test Year Revenue (Schedule JMM-W14, Line 17)	9,633			
32	Increase in Property Tax Due to Increase in Revenue (L30-31)		1,119		
33	Total Required Increase in Revenue (L21 + L24 + L29 + L32)		\$ 58,652		
<u>Calculation of Income Tax:</u>					
		Test Year		Staff Recommended	Staff W/Surcharge
34	Revenue (Schedule JMM-W1, Col. [B], Line 9 & Sch. JMM-W1, Col. [B] Line 10)	\$ 168,250	\$ 58,652	\$ 226,902	\$ 258,519
35	Operating Expenses Excluding Income Taxes	\$ 219,072		\$ 220,191	\$ 220,795
36	Synchronized Interest (L51)	\$ 5,271		\$ 5,271	\$ 20,689
37	Arizona Taxable Income (L34 - L35 - L36)	\$ (56,093)		\$ 1,440	\$ 17,035
38	Arizona State Income Tax Rate	6.9680%		6.9680%	6.9680%
39	Arizona Income Tax (L37 x L38)	\$ (3,909)		\$ 100	\$ 1,187
40	Federal Taxable Income (L37- L39)	\$ (52,184)		\$ 1,339	\$ 15,848
41	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ (7,500)		\$ 201	\$ 2,377
42	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ (546)		\$ -	\$ -
43	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ -	\$ -
44	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ -	\$ -
45	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	\$ -
46	Total Federal Income Tax	\$ (8,046)		\$ 201	\$ 2,377
47	Combined Federal and State Income Tax (L39 + L46)	\$ (11,955)		\$ 301	\$ 3,564

48 Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40]

15.4081%

Clear Springs Utility Company, Inc. - Water Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-W3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 1,102,085	\$ 1,079,784
2	Less: Accumulated Depreciation	909,719	900,248
3	Net Plant in Service	<u>\$ 192,366</u>	<u>\$ 179,535</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 265,728	\$ 289,888
5	Less: Accumulated Amortization	229,063	\$ 230,534
6	Net CIAC	<u>36,665</u>	<u>\$ 59,354</u>
7	Advances in Aid of Construction (AIAC)	78,613	111,887
8	Customer Deposits	-	6,361
9	Deferred Income Tax Credits	-	-
<u>ADD:</u>			
10	Working Capital Allowance	19,658	19,431
11	Deferred Regulatory Assets	-	-
12	<b>Original Cost Rate Base</b>	<u>\$ 96,746</u>	<u>\$ 21,364</u>

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Post Test Year Plant Adjustment [Ref. Sch JMM-W5]	(C) ADJ #2 Plant Not Used And Useful [Ref. Sch JMM-W6]	(D) ADJ #3 Customer Deposits [Ref. Sch JMM-W7]	(E) ADJ #4 Cash Working Capital [Ref. Sch JMM-W8]	(F) ADJ #5 AIAC [Ref. Sch JMM-W9.1]	(G) ADJ #6 CIAC [Ref. Sch JMM-W9.2]	(G) STAFF ADJUSTED
1		PLANT IN SERVICE:								
2	301	Organization Cost	\$ 1,625	-	-	-	-	-	-	\$ 1,625
3	302	Franchise Cost	-	-	-	-	-	-	-	-
4	303	Land and Land Rights	-	-	-	-	-	-	-	-
5	304	Structures and Improvements	28,565	-	-	-	-	-	-	28,565
6	305	Collecting and Impounding Res.	-	-	-	-	-	-	-	-
7	306	Lake River and Other Intakes	-	-	-	-	-	-	-	-
8	307	Wells and Springs	179,255	-	-	-	-	-	-	179,255
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-	-	-	-
11	310	Power Generation Equipment	-	-	-	-	-	-	-	-
12	311	Electric Pumping Equipment	172,837	11,849	(7,561)	-	-	-	-	177,126
13	320.1	Water Treatment Plants	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	4,574	-	-	-	-	-	-	4,574
15	330	Distribution Reservoirs & Standpipe	16,011	-	-	-	-	-	-	16,011
16	330.1	Storage Tanks	122,423	-	(26,590)	-	-	-	-	95,833
17	330.2	Pressure Tanks	-	-	-	-	-	-	-	-
18	331	Transmission and Distribution Mains	349,433	-	-	-	-	-	-	349,433
19	333	Services	121,259	-	-	-	-	-	-	121,259
20	334	Meters	83,678	-	-	-	-	-	-	83,678
21	335	Hydrants	12,214	-	-	-	-	-	-	12,214
22	336	Backflow Prevention Devices	-	-	-	-	-	-	-	-
23	339	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-	-
24	340	Office Furniture and Fixtures	3,274	-	-	-	-	-	-	3,274
25	341	Transportation Equipment	-	-	-	-	-	-	-	-
26	342	Stores Equipment	-	-	-	-	-	-	-	-
27	343	Tools and Work Equipment	6,727	-	-	-	-	-	-	6,727
28	344	Laboratory Equipment	-	-	-	-	-	-	-	-
29	345	Power Operated Equipment	-	-	-	-	-	-	-	-
30	346	Communications Equipment	-	-	-	-	-	-	-	-
31	347	Miscellaneous Equipment	-	-	-	-	-	-	-	-
32	348	Other Tangible Plant	-	-	-	-	-	-	-	-
33		Total Plant in Service - Actual	1,102,085	-	-	-	-	-	-	1,079,784
34		Post Test Year Plant	-	-	-	-	-	-	-	-
35		Total Plant in Service	\$ 1,102,085	\$ 11,849	\$ (34,151)	\$ -	\$ -	\$ -	\$ -	\$ 1,079,784
36		Less: Accumulated Depreciation	909,719	741	(10,212)	-	-	-	-	900,248
37		Net Plant in Service	\$ 192,366	\$ 11,108	\$ (23,939)	\$ -	\$ -	\$ -	\$ -	\$ 179,535
38		LESS:								
39		Contributions in Aid of Construction (CIAC)								
40		Less: Accumulated Amortization	\$ 265,728	-	-	\$ -	\$ -	\$ -	\$ 24,160	\$ 289,888
41		Net CIAC (L39 - L40)	229,063	-	-	-	-	-	1,471	230,534
42		Advances in Aid of Construction (AIAC)	36,665	-	-	-	-	-	22,689	59,354
43		Customer Deposits	78,613	-	-	6,361	-	33,274	-	111,887
44		Deferred Income Taxes	-	-	-	-	-	-	-	6,361
45			-	-	-	-	-	-	-	-
46			-	-	-	-	-	-	-	-
47		ADD:								
48		Working Capital Allowance	19,658	-	-	-	(227)	-	-	19,431
49		Deferred Regulatory Assets	-	-	-	-	-	-	-	-
50			-	-	-	-	-	-	-	-
51		Original Cost Rate Base	\$ 96,746	\$ 11,108	\$ (23,939)	\$ (6,361)	\$ (227)	\$ (33,274)	\$ (22,689)	\$ 21,364

Clear Springs Utility Company, Inc. - Water Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-W5

RATE BASE ADJUSTMENT NO. 1 - POST TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	311	Electric Pumping Equipment	\$ 172,837	\$ 11,849	\$ 184,686
2					
3		Accumulated Depreciation	\$ 909,719	\$ 741	\$ 910,460

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			Plant in Service Per Company		Not Used and Useful Plant		Plant in Service Per Staff (Col A + Col B)	
1	311	Pumping Equipment	\$	172,837	\$	(7,561)	\$	165,276
2	330.1	Storage Tanks		122,423		(26,590)		95,833
3		Total	\$	295,260	\$	(34,151)	\$	261,109
4								
5		Accumulated Depreciation	\$	909,719	\$	(10,212)	\$	899,507

References:

Column [A]: Company Application  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-W7

RATE BASE ADJUSTMENT NO. 3 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits	\$ -	\$ 6,361	\$ 6,361

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 4 - CASH WORKING CAPITAL**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Cash Working Capital	\$	19,658	\$	(227)	\$	19,431
2							
3	<u>Staff's Calculation of Cash Working Capital</u>						
4	1/24th Purchased Power	\$	1,690				
5	1/8th Operation & Maintenance Expense		17,742				
6	Total Cash Working Capital	\$	19,431				

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]



**RATE BASE ADJUSTMENT NO. 5 - ADVANCES IN AID OF CONSTRUCTION**

LINE NO.	DESCRIPTION	[A] Service Per Company	[B] Staff Adjustment	[C] Per Staff (Col A + Col B)
1	Advances in Aid of Construction (AIAC)	\$ 78,613	(6,979)	\$ 71,634
2	Service Line and Meter Installation Deposits	\$ -	\$ 40,253	\$ 40,253
		\$ 78,613	33,274	\$ 111,887

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 6 - CONTRIBUTIONS IN AID OF CONSTRUCTION**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		Service Per Company	Staff Adjustment	Per Staff (Col A + Col B)
1	Contributions in Aid of Construction (CIAC)	\$ 265,728	\$ 24,160	\$ 289,888
2	Less: Accumulated Amortization	229,063	1,471	230,534
3	Net CIAC	\$ 36,665	\$ 22,689	\$ 59,354

References:

Column [A]: Company Application  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED	[F] SURCHARGE	[G] STAFF RECOMMENDED WITH SURCHARGE
1	<u>REVENUES:</u>							
2	Metered Water Sales	\$ 165,031	\$ -	\$ 165,031	\$ 58,652	\$ 223,683	\$ 31,617	\$ 255,300
3	Water Sales-Unmetered	-	-	-	-	-	-	-
4	Other Water Revenue	3,219	-	3,219	-	3,219	-	3,219
5	Intentionally Left Blank	-	-	-	-	-	-	-
6	<b>Total Operating Revenues</b>	<b>\$ 168,250</b>	<b>\$ -</b>	<b>\$ 168,250</b>	<b>\$ 58,652</b>	<b>\$ 226,902</b>	<b>\$ 31,617</b>	<b>\$ 258,519</b>
7								
8	<u>OPERATING EXPENSES:</u>							
9	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
10	Purchased Water	-	-	-	-	-		-
11	Purchased Power	40,551	-	40,551	-	40,551		40,551
12	Fuel for Power Production	-	-	-	-	-		-
13	Chemicals	1,811	-	1,811	-	1,811		1,811
14	Repairs and Maintenance	12,168	-	12,168	-	12,168		12,168
15	Office Supplies and Expense	9,437	-	9,437	-	9,437		9,437
16	Outside Services	92,240	-	92,240	-	92,240		92,240
17	Outside Services - Other	-	-	-	-	-		-
18	Outside Services - Legal	-	-	-	-	-		-
19	Water Testing	7,172	(1,815)	5,357	-	5,357		5,357
20	Rents	-	-	-	-	-		-
21	Transportation Expenses	6,938	-	6,938	-	6,938		6,938
22	Insurance - General Liability	3,443	-	3,443	-	3,443		3,443
23	Insurance - Health and Life	-	-	-	-	-		-
24	Regulatory Commission Expense	-	-	-	-	-		-
25	Regulatory Commission Expense - Rate Case	10,000	-	10,000	-	10,000		10,000
26	Miscellaneous Expense	540	-	540	-	540		540
27	Bad Debt Expense	-	-	-	-	-		-
28	Depreciation Expense	28,545	(1,972)	26,573	-	26,573		26,573
29	Amortization of CIAC	-	-	-	-	-		-
30	Taxes Other than Income	-	-	-	-	-		-
31	Property Taxes	9,698	(65)	9,633	1,119	10,752	603	11,355
32	Income Taxes	(13,346)	1,391	(11,955)	12,256	301	3,263	3,564
33	Interest on Customer Deposits	325	-	382	-	382		382
34	<b>Total Operating Expenses</b>	<b>\$ 209,522</b>	<b>\$ (2,462)</b>	<b>\$ 207,117</b>	<b>\$ 13,375</b>	<b>\$ 220,493</b>	<b>\$ 3,866</b>	<b>\$ 224,359</b>
35	<b>Operating Income (Loss)</b>	<b>\$ (41,272)</b>	<b>\$ 2,462</b>	<b>\$ (38,867)</b>	<b>\$ 45,277</b>	<b>\$ 6,409</b>	<b>\$ 27,751</b>	<b>\$ 34,160</b>

References:

Column (A): Company Schedule C-1  
Column (B): Schedule JMM-W11  
Column (C): Column (A) + Column (B)  
Column (D): Schedules JMM-W1, JMM-W2 and JMM-W14  
Column (E): Column (C) + Column (D)  
Column (F): Surcharge plus incremental property and income taxes  
Column (G): Column (E) + Column (F)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing Expenses ADJ #1	[C] Depreciation Expense ADJ #2	[D] Property Tax Expense ADJ #3	[E] Income Tax Expense ADJ #4	[H] Customer Deposit Interest ADJ #5	[F] STAFF ADJUSTED
1	<u>REVENUES:</u>							
2	Metered Water Sales	\$ 165,031	-	-	-	-	-	\$ 165,031
3	Water Sales-Unmetered	-	-	-	-	-	-	-
4	Other Water Revenue	3,219	-	-	-	-	-	3,219
5	Intentionally Left Blank	-	-	-	-	-	-	-
6	<b>Total Operating Revenues</b>	<b>\$ 168,250</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 168,250</b>
7								
8	<u>OPERATING EXPENSES:</u>							
9	Salaries and Wages	\$ -	-	-	-	-	-	-
10	Purchased Water	-	-	-	-	-	-	-
11	Purchased Power	40,551	-	-	-	-	-	40,551
12	Fuel for Power Production	-	-	-	-	-	-	-
13	Chemicals	1,811	-	-	-	-	-	1,811
14	Repairs and Maintenance	12,168	-	-	-	-	-	12,168
15	Office Supplies and Expense	9,437	-	-	-	-	-	9,437
16	Outside Services	92,240	-	-	-	-	-	92,240
17	Outside Services - Other	-	-	-	-	-	-	-
18	Outside Services - Legal	-	-	-	-	-	-	-
19	Water Testing	7,172	(1,815)	-	-	-	-	5,357
20	Rents	-	-	-	-	-	-	-
21	Transportation Expenses	-	-	-	-	-	-	-
22	Insurance - General Liability	6,938	-	-	-	-	-	6,938
23	Insurance - Health and Life	3,443	-	-	-	-	-	3,443
24	Regulatory Commission Expense	-	-	-	-	-	-	-
25	Regulatory Commission Expense - Rate Case	10,000	-	-	-	-	-	10,000
26	Miscellaneous Expense	540	-	-	-	-	-	540
27	Bad Debt Expense	-	-	-	-	-	-	-
28	Depreciation Expense	28,545	-	(1,972)	-	-	-	26,573
29	Amortization of CIAC	-	-	-	-	-	-	-
30	Taxes Other than Income	-	-	-	-	-	-	-
31	Property Taxes	9,698	-	-	-	-	-	9,633
32	Income Taxes	(13,346)	-	-	(65)	-	-	(11,955)
33	Interest on Customer Deposits	325	-	-	-	1,391	-	382
34	<b>Total Operating Expenses</b>	<b>\$ 209,522</b>	<b>(1,815)</b>	<b>(1,972)</b>	<b>(65)</b>	<b>1,391</b>	<b>57</b>	<b>207,117</b>
35	<b>Operating Income (Loss)</b>	<b>\$ (41,272)</b>	<b>\$ 1,815</b>	<b>\$ 1,972</b>	<b>\$ 65</b>	<b>\$ (1,391)</b>	<b>\$ (57)</b>	<b>\$ (38,867)</b>

Clear Springs Utility Company, Inc. - Water Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-W12

OPERATING ADJUSTMENT NO. 1 - WATER TESTING EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Water Testing	\$ 7,172	\$ (1,815)	\$ 5,357

References:

Column [A]: Company Application  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]		[D]		[E]	
			PLANT In SERVICE Per Staff		NonDepreciable or Fully Depreciated PLANT (See Note 1)		DEPRECIABLE PLANT (Col A - Col B)		DEPRECIATION RATE		DEPRECIATION EXPENSE (Col C x Col D)	
1	301	Organization Cost	\$	1,625	\$	1,625	\$	-	0.00%	\$	-	
2	302	Franchise Cost	\$	-	\$	-	\$	-	0.00%	\$	-	
3	303	Land and Land Rights	\$	210	\$	210	\$	-	0.00%	\$	-	
4	304	Structures and Improvements	\$	28,565	\$	28,565	\$	-	3.33%	\$	-	
5	305	Collecting and Impounding Res.	\$	-	\$	-	\$	-	2.50%	\$	-	
6	306	Lake River and Other Intakes	\$	-	\$	-	\$	-	2.50%	\$	-	
7	307	Wells and Springs	\$	179,255	\$	-	\$	179,255	3.33%	\$	5,969	
8	308	Infiltration Galleries and Tunnels	\$	-	\$	-	\$	-	6.67%	\$	-	
9	309	Supply Mains	\$	-	\$	-	\$	-	2.00%	\$	-	
10	310	Power Generation Equipment	\$	-	\$	-	\$	-	5.00%	\$	-	
11	311	Electric Pumping Equipment	\$	177,126	\$	121,259	\$	55,867	12.50%	\$	6,983	
12	320	Water Treatment Equipment	\$	-	\$	-	\$	-	3.33%	\$	-	
13	320	Water Treatment Plant	\$	4,574	\$	-	\$	4,574	20.00%	\$	915	
14	330	Distribution Reservoirs & Standpipe	\$	16,011	\$	16,011	\$	-	2.22%	\$	-	
15	330.1	Storage Tanks	\$	95,833	\$	-	\$	95,833	2.22%	\$	2,127	
16	330.2	Pressure Tanks	\$	-	\$	-	\$	-	5.00%	\$	-	
17	331	Transmission and Distribution Mains	\$	349,433	\$	-	\$	349,433	2.00%	\$	6,989	
18	333	Services	\$	121,259	\$	-	\$	121,259	3.33%	\$	4,038	
19	334	Meters	\$	83,678	\$	66,606	\$	17,072	8.33%	\$	1,422	
20	335	Hydrants	\$	12,214	\$	9,850	\$	2,364	2.00%	\$	47	
21	336	Backflow Prevention Devices	\$	-	\$	-	\$	-	6.67%	\$	-	
22	339	Other Plant and Miscellaneous Equipment	\$	-	\$	-	\$	-	6.67%	\$	-	
23	340	Office Furniture and Fixtures	\$	3,274	\$	3,274	\$	-	6.67%	\$	-	
24	341	Transportation Equipment	\$	-	\$	-	\$	-	20.00%	\$	-	
25	342	Stores Equipment	\$	-	\$	-	\$	-	4.00%	\$	-	
26	343	Tools and Work Equipment	\$	6,727	\$	6,727	\$	-	5.00%	\$	-	
27	344	Laboratory Equipment	\$	-	\$	-	\$	-	10.00%	\$	-	
28	345	Power Operated Equipment	\$	-	\$	-	\$	-	5.00%	\$	-	
29	346	Communications Equipment	\$	-	\$	-	\$	-	10.00%	\$	-	
30	347	Miscellaneous Equipment	\$	-	\$	-	\$	-	10.00%	\$	-	
31	348	Other Tangible Plant	\$	-	\$	-	\$	-	10.00%	\$	-	
32		Total Plant	\$	1,079,784	\$	254,127	\$	825,657		\$	28,491	
33												
34		Composite Depreciation Rate:		3.03%	See Note 2							
35		CIAC:	\$	63,309	See Note 2							
36		Amortization of CIAC (Line 35 x Line 34):	\$	1,918								
37												
38		Depreciation Expense Before Amortization of CIAC:	\$	28,491								
39		Less Amortization of CIAC:	\$	1,918								
40		Test Year Depreciation Expense - Staff:	\$	26,573								
41		Depreciation Expense - Company:	\$	28,545								
42		Staff's Total Adjustment:	\$	(1,972)								
43												

**Note 1:** For accounts 311, 334, and 335 the Company recognizes a portion of the original cost balance as fully depreciated. See Company Schedule C-2VWc.

**Note 2:** The Company in its rebuttal testimony proposes to separately track CIAC accounts.

References:

Column [A]: Schedule JMM-W4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED	[C] STAFF W/SURCHARGE
	Property Tax Calculation			
1	Staff Adjusted Test Year Revenues	\$ 168,250	\$ 168,250	\$ 168,250
2	Weight Factor	2	2	2
3	Subtotal (Line 1 * Line 2)	336,500	\$ 336,500	\$ 336,500
4	Staff Recommended Revenue, Per Schedule JMM-1	168,250	\$ 226,902	\$ 258,519
5	Subtotal (Line 4 + Line 5)	504,750	563,402	595,019
6	Number of Years	3	3	3
7	Three Year Average (Line 5 / Line 6)	168,250	\$ 187,801	\$ 198,340
8	Department of Revenue Multiplier	2	2	2
9	Revenue Base Value (Line 7 * Line 8)	336,500	\$ 375,601	\$ 396,679
10	Plus: 10% of CWIP -	-	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	336,500	\$ 375,601	\$ 396,679
13	Assessment Ratio	20.5%	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	68,983	\$ 76,998	\$ 81,319
15	Composite Property Tax Rate (Per Company Schedule)	13.9638%	13.9638%	13.9638%
16			\$ -	
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 9,633		
18	Company Proposed Property Tax	9,698		
19				
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (65)		
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 10,752	\$ 11,355
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 9,633	\$ 10,752
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 1,119	\$ 603
24				
25	Increase to Property Tax Expense		\$ 1,119	
26	Increase in Revenue Requirement		58,652	
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.908386%	

References:

Column [A]: Company Application  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Water Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

**Surrebuttal Schedule JMM-W15**

**OPERATING INCOME ADJUSTMENT NO. 4 - TEST YEAR INCOME TAXES**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Income Tax Expense	\$ (13,346)	\$ 1,391	\$ (11,955)

References:

Column (A), Company Schedule C-1

Column (B): Column [C] - Column [A]

Column (C): Schedule JMM-W2



OPERATING ADJUSTMENT NO. 5 - CUSTOMER DEPOSIT INTEREST

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Interest on Customer Deposits	\$ 325	\$ 57	\$ 382

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

**CASH FLOW ANALYSIS - WATER**

Line No.	Without Surcharge	Without Surcharge and with New Loan	With Surcharge and with New Loan
<b>1 Cash Inflows</b>			
2 Revenue - Base Rates	\$ 226,902	\$ 226,902	\$ 226,902
3 Revenue - Surcharge for \$10,000 Cash Flow with Loan			\$ 31,617
4 Total Revenue	\$ 226,902	\$ 226,902	\$ 258,519
<b>5</b>			
<b>6 Cash Outflows</b>			
7 Salaries and Wages	\$ -	\$ -	\$ -
8 Purchased Water	\$ -	\$ -	\$ -
9 Purchased Power	\$ 40,551	\$ 40,551	\$ 40,551
10 Fuel for Power Production	\$ -	\$ -	\$ -
11 Chemicals	\$ 1,811	\$ 1,811	\$ 1,811
12 Repairs and Maintenance	\$ 12,168	\$ 12,168	\$ 12,168
13 Office Supplies and Expense	\$ 9,437	\$ 9,437	\$ 9,437
14 Outside Services	\$ 92,240	\$ 92,240	\$ 92,240
15 Outside Services - Other	\$ -	\$ -	\$ -
16 Outside Services - Legal	\$ -	\$ -	\$ -
17 Water Testing	\$ 5,357	\$ 5,357	\$ 5,357
18 Rents	\$ -	\$ -	\$ -
19 Transportation Expenses	\$ 6,938	\$ 6,938	\$ 6,938
20 Insurance - General Liability	\$ 3,443	\$ 3,443	\$ 3,443
21 Insurance - Health and Life	\$ -	\$ -	\$ -
22 Regulatory Commission Expense	\$ -	\$ -	\$ -
23 Regulatory Commission Expense - Rate Case	\$ 10,000	\$ 10,000	\$ 10,000
24 Miscellaneous Expense	\$ 540	\$ 540	\$ 540
25 Bad Debt Expense	\$ -	\$ -	\$ -
26 Depreciation Expense	\$ 26,573	\$ 26,573	\$ 26,573
27 Amortization of CIAC	\$ -	\$ -	\$ -
28 Taxes Other than Income	\$ -	\$ -	\$ -
29 Property Taxes	\$ 10,752	\$ 10,752	\$ 11,355
30 Income Taxes	\$ 301	\$ (2,925)	\$ 3,564
31 Interest on Customer Deposits	\$ 382	\$ 382	\$ 382
32 Total Expenses	\$ 220,493	\$ 217,267	\$ 224,359
<b>33</b>			
<b>34 Operating Income</b>	\$ 6,409	\$ 9,635	\$ 34,160
<b>35</b>			
36 Plus Depreciation Expense	\$ 26,573	\$ 26,573	\$ 26,573
37 Less: AIAC Refunded in Test Year	\$ 525	\$ 525	\$ 525
38 Less: WIFA Loan Payment Interest <sup>1</sup>	\$ 6,245	\$ 21,664	\$ 21,664
39 Less: WIFA Loan Payment Principle <sup>1</sup>	\$ 5,630	\$ 20,338	\$ 20,338
40 <b>Cash Flow from Operations before WIFA Reserve</b>	\$ 20,582	\$ (6,319)	\$ 18,206
<b>41</b>			
42 WIFA Reserve (20% of Principal and Interest)	\$ 2,180	\$ 8,206	\$ 8,206
43 <b>Cash Flow from Operations after WIFA Reserve</b>	<u>\$ 18,402</u>	<u>\$ (14,524)</u>	<u>\$ 10,000</u>
<b>44</b>			
45 Operating Income	\$ 6,409	\$ 9,635	\$ 34,160
46 Less: WIFA Loan Payment Interest	\$ 6,245	\$ 21,664	\$ 21,664
47 <b>Net Income</b>	<u>\$ 164</u>	<u>\$ (12,028)</u>	<u>\$ 12,497</u>
<b>48</b>			
49 Rate of Return on Rate Base	30.00%	45.10%	159.89%
50 Operating Margin	2.82%	4.25%	13.21%

<sup>1</sup> Updated to reflect Company's Rebuttal

	[A] Water <u>12/31/2010</u>	[B] Wastewater <u>12/31/2010</u>	[C] Combined <u>12/31/2010</u>	[D] <i>Pro forma Combined Without Surcharge</i>	[E] <i>Pro forma Combined Includes Surcharge</i>
1 Operating Income	\$6,409	\$8,070	\$14,479	\$14,479	\$42,230
2 Depreciation & Amort.	26,573	0	\$26,572	\$26,572	26,572
3 Income Tax Expense	301	2,189	\$2,490	\$2,490	5,753
4					
5 Interest Expense	6,245	0	\$6,245	\$21,664	21,664
6 Repayment of Principal	5,630	0	\$5,630	\$20,338	20,338
7					
8 TIER					
9 [1+3] ÷ [5]	1.07	N/M	2.72	0.78	2.21
10					
11 DSC					
12 [1+2+3] ÷ [5+6]	2.80	N/M	3.67	1.04	1.78
13					
14					

References:

Column [A]: Staff Recommended Water Division  
Column [B]: Staff Recommended Wastewater Division  
Column [C]: Column [A] + Column [B]  
Column [D]: Pro forma Loan with no Surcharge  
Column [E]: Pro forma Loan includes Surcharge

## CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

### Infrastructure Surcharge Based on AWWA Meter Multipliers

Loan Amount		\$ 426,249
Surcharge - Non-Liability		\$ 20,987
Surcharge - Debt Service Reserve Fund (Liability)	(\$8,206) x 1.2954 GRCF)	\$ 10,630
Total Surcharge Required to \$10,000 Cash Flow		<u>\$ 31,617</u>

### Surcharges - Non-Liability

Total Equivalent Annual Bills		7,692
5/8"x 3/4" Meter Surcharge Amount	\$ 20,987 / 7,692 =	\$ 2.73
3/4" Meter Surcharge Amount	\$ 20,987 / 7,692 x 1.5 =	\$ 4.09
1" Meter Surcharge Amount	\$ 20,987 / 7,692 x 2.5 =	\$ 6.82
1 1/2" Meter Surcharge Amount	\$ 20,987 / 7,692 x 5 =	\$ 13.64
2" Meter Surcharge Amount	\$ 20,987 / 7,692 x 8 =	\$ 21.83
3" Meter Surcharge Amount	\$ 20,987 / 7,692 x 16 =	\$ 43.66
4" Meter Surcharge Amount	\$ 20,987 / 7,692 x 25 =	\$ 68.21
6" Meter Surcharge Amount	\$ 20,987 / 7,692 x 50 =	\$ 136.42

Meter Size	Number of Customers <sup>1</sup>	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	540	1	540	6,480	\$ 2.73	\$ 32.74	\$ 17,680
3/4" Meter	5	1.5	8	90	4.09	49.11	\$ 246
1" Meter	15	2.5	38	450	6.82	81.85	\$ 1,228
1 1/2" Meter	8	5	40	480	13.64	163.71	\$ 1,310
2" Meter	2	8	16	192	21.83	261.93	\$ 524
3" Meter	-	16	-	-	43.66	523.86	\$ -
4" Meter	-	25	-	-	68.21	818.53	\$ -
6" Meter	-	50	-	-	136.42	1,637.07	\$ -
TOTAL	570		641	7,692			\$ 20,987

### Surcharges - Debt Service Reserve Fund

Total Equivalent Annual Bills		7,692
5/8"x 3/4" Meter Surcharge Amount	\$ 10,630 / 7,692 =	\$ 1.38
3/4" Meter Surcharge Amount	\$ 10,630 / 7,692 x 1.5 =	\$ 2.07
1" Meter Surcharge Amount	\$ 10,630 / 7,692 x 2.5 =	\$ 3.45
1 1/2" Meter Surcharge Amount	\$ 10,630 / 7,692 x 5 =	\$ 6.91
2" Meter Surcharge Amount	\$ 10,630 / 7,692 x 8 =	\$ 11.06
3" Meter Surcharge Amount	\$ 10,630 / 7,692 x 16 =	\$ 22.11
4" Meter Surcharge Amount	\$ 10,630 / 7,692 x 25 =	\$ 34.55
6" Meter Surcharge Amount	\$ 10,630 / 7,692 x 50 =	\$ 69.10

Meter Size	Number of Customers <sup>1</sup>	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	540	1	540	6,480	\$ 1.38	\$ 16.58	\$ 8,955
3/4" Meter	5	1.5	8	90	2.07	24.88	\$ 124
1" Meter	15	2.5	38	450	3.45	41.46	\$ 622
1 1/2" Meter	8	5	40	480	6.91	82.92	\$ 663
2" Meter	2	8	16	192	11.06	132.67	\$ 265
3" Meter	-	16	-	-	22.11	265.34	\$ -
4" Meter	-	25	-	-	34.55	414.59	\$ -
6" Meter	-	50	-	-	69.10	829.18	\$ -
TOTAL	570		641	7,692			\$ 10,630

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 inch	\$ 11.00	\$ 16.00	\$ 12.75
3/4 inch	14.50	24.00	19.13
1 inch	23.25	40.00	31.88
1 1/2 inch	44.00	80.00	63.75
2 inch	66.00	128.00	102.00
3 inch	125.50	256.00	204.00
4 inch	250.00	400.00	318.75
6 inch	500.00	800.00	637.50
<u>Commodity Charge - Per 1,000 Gallons</u>			
<u>5/8" x 3/4" Meter (Residential)</u>			
First 3,000 gallons	\$ 1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	\$ 1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 3,000 gallons	N/A	N/A	\$ 1.5000
3,001 to 8,000 gallons	N/A	N/A	3.6000
Over 8,000 gallons	N/A	N/A	5.1500
<u>3/4" Meter (Residential)</u>			
First 3,000 gallons	1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 3,000 gallons	N/A	N/A	1.5000
3,001 to 8,000 gallons	N/A	N/A	3.6000
Over 8,000 gallons	N/A	N/A	5.1500
<u>5/8" x 3/4" Meter (Commercial/Irrigation)</u>			
First 3,000 gallons	1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 8,000 gallons	N/A	N/A	3.6000
Over 8,000 gallons	N/A	N/A	5.1500
<u>3/4" Meter (Commercial/Irrigation)</u>			
First 3,000 gallons	1.2500	N/A	N/A
3,001 to 10,000 gallons	2.2500	N/A	N/A
All gallons over 10,000	3.5000	N/A	N/A
First 3,000 gallons	N/A	1.8200	N/A
3,001 to 8,000 gallons	N/A	3.7500	N/A
Over 8,000 gallons	N/A	6.0000	N/A
First 8,000 gallons	N/A	N/A	3.6000
Over 8,000 gallons	N/A	N/A	5.1500
<u>1" Meter (All Classes)</u>			
First 31,000 gallons	2.2500	N/A	N/A
Over 31,000 gallons	3.5000	N/A	N/A
First 30,000 gallons	N/A	3.7500	N/A
Over 30,000 gallons	N/A	6.0000	N/A
First 15,000 gallons	N/A	N/A	3.6000
Over 15,000 gallons	N/A	N/A	5.1500
<u>1.5" Meter (All Classes)</u>			
First 58,000 gallons	2.2500	N/A	N/A
Over 58,000 gallons	3.5000	N/A	N/A
First 50,000 gallons	N/A	3.7500	N/A
Over 50,000 gallons	N/A	6.0000	N/A
First 30,000 gallons	N/A	N/A	3.6000
Over 30,000 gallons	N/A	N/A	5.1500

Rate Design

<b>2" Meter (All Classes)</b>			
First 74,000 gallons	2.2500	N/A	N/A
Over 74,000 gallons	3.5000	N/A	N/A
First 70,000 gallons	N/A	3.7500	N/A
Over 70,000 gallons	N/A	6.0000	N/A
First 50,000 gallons	N/A	N/A	3.6000
Over 50,000 gallons	N/A	N/A	5.1500
<b>3" Meter (All Classes)</b>			
First 100,000 gallons	2.2500	3.7500	N/A
Over 100,000 gallons	3.5000	6.0000	N/A
First 110,000 gallons	N/A	N/A	3.6000
Over 110,000 gallons	N/A	N/A	5.1500
<b>4" Meter (All Classes)</b>			
First 150,000 gallons	2.2500	3.7500	N/A
Over 150,000 gallons	3.5000	6.0000	N/A
First 180,000 gallons	N/A	N/A	3.6000
Over 180,000 gallons	N/A	N/A	5.1500
<b>6" Meter (All Classes)</b>			
First 250,000 gallons	2.2500	3.7500	N/A
Over 250,000 gallons	3.5000	6.0000	N/A
First 380,000 gallons	N/A	N/A	3.6000
Over 380,000 gallons	N/A	N/A	5.1500
<b>Bulk Water Sales - 3"</b>			
Excess of Minimum	4.0000	6.0000	N/A
All Usage (per 1,000 gallons)	N/A	N/A	5.1500
<b>Other Service Charges</b>			
Establishment	\$ 30.00	\$ 35.00	\$ 35.00
Establishment (After Hours)	\$ 45.00	N/A	N/A
Reconnection (Delinquent)	\$ 30.00	\$ 40.00	\$ 40.00
Meter Test (If Correct)	\$ 45.00	\$ 45.00	\$ 45.00
Meter Reread (If Correct)	\$ 25.00	\$ 30.00	\$ 30.00
NSF Check Charge	\$ 20.00	\$ 25.00	\$ 25.00
Deposit	*	*	*
Deposit Interest (Per Annum)	*	*	*
Deferred Payment (Per Month)	1.50%	1.50%	**
Late Payment Fee (Per Month)	N/A	2.00%	1.50%
Re-establishment (within 12 months)	***	***	***
After Hours Service Charge	N/A	\$ 25.00	\$ 25.00
<p>* Per Commission Rule A.A.C. R-14-2-403(B)</p> <p>** Per Commission Rule A.A.C. R-14-2-403(B)</p> <p>*** 2% of monthly minimum for a comparable sized meter connection, but no less than \$10.00 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.</p>			

**Service and Meter Installation Charges**

	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
Service Size 5/8"	\$ 550.00	\$ 445.00	\$ 155.00	\$ 600.00	\$ 445.00	\$ 155.00	\$ 600.00
3/4"	\$ 550.00	\$ 445.00	\$ 255.00	\$ 700.00	\$ 445.00	\$ 255.00	\$ 700.00
1"	\$ 650.00	\$ 495.00	\$ 315.00	\$ 810.00	\$ 495.00	\$ 315.00	\$ 810.00
1-1/2"	\$ 875.00	\$ 550.00	\$ 525.00	\$ 1,075.00	\$ 550.00	\$ 525.00	\$ 1,075.00
2" Turbine	\$ 1,400.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00	\$ 830.00	\$ 1,045.00	\$ 1,875.00
2" Compound	N/A	\$ 830.00	\$ 1,890.00	\$ 2,720.00	\$ 830.00	\$ 1,890.00	\$ 2,720.00
3" Turbine	\$ 1,900.00	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00	\$ 1,045.00	\$ 1,670.00	\$ 2,715.00
3" Compound	N/A	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00	\$ 1,165.00	\$ 2,545.00	\$ 3,710.00
4" Turbine	\$ 3,200.00	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00	\$ 1,490.00	\$ 2,670.00	\$ 4,160.00
4" Compound	N/A	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00	\$ 1,670.00	\$ 3,645.00	\$ 5,315.00
6" Turbine	\$ 5,800.00	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00	\$ 2,210.00	\$ 5,025.00	\$ 7,235.00
6" Compound	N/A	\$ 2,330.00	\$ 6,920.00	\$ 9,250.00	\$ 2,300.00	\$ 6,920.00	\$ 9,220.00

**Other Rates and Charges by Order:**

In Addition to the Collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with R14-2-409.D.5.

**Typical Bill Analysis**  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,179	\$ 19.65	\$ 29.63	\$ 9.98	50.77%
Median Usage	3,318	15.47	22.65	\$ 7.19	46.47%
<b>Staff Recommended</b>					
Average Usage	5,179	\$ 19.65	\$ 25.09	\$ 5.44	27.69%
Median Usage	3,318	15.47	18.39	\$ 2.93	18.94%

**Present & Proposed Rates (Without Taxes)**  
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 11.00	\$ 16.00	45.45%	\$ 12.75	15.91%
1,000	12.25	17.82	45.47%	14.25	16.33%
2,000	13.50	19.64	45.48%	15.75	16.67%
3,000	14.75	21.46	45.49%	17.25	16.95%
4,000	17.00	25.21	48.29%	20.85	22.65%
5,000	19.25	28.96	50.44%	24.45	27.01%
6,000	21.50	32.71	52.14%	28.05	30.47%
7,000	23.75	36.46	53.52%	31.65	33.26%
8,000	26.00	40.21	54.65%	35.25	35.58%
9,000	28.25	46.21	63.58%	40.40	43.01%
10,000	30.50	52.21	71.18%	45.55	49.34%
11,000	34.00	58.21	71.21%	50.70	49.12%
12,000	37.50	64.21	71.23%	55.85	48.93%
13,000	41.00	70.21	71.24%	61.00	48.78%
14,000	44.50	76.21	71.26%	66.15	48.65%
15,000	48.00	82.21	71.27%	71.30	48.54%
16,000	51.50	88.21	71.28%	76.45	48.45%
17,000	55.00	94.21	71.29%	81.60	48.36%
18,000	58.50	100.21	71.30%	86.75	48.29%
19,000	62.00	106.21	71.31%	91.90	48.23%
20,000	65.50	112.21	71.31%	97.05	48.17%
25,000	83.00	142.21	71.34%	122.80	47.95%
30,000	100.50	172.21	71.35%	148.55	47.81%
35,000	118.00	202.21	71.36%	174.30	47.71%
40,000	135.50	232.21	71.37%	200.05	47.64%
45,000	153.00	262.21	71.38%	225.80	47.58%
50,000	170.50	292.21	71.38%	251.55	47.54%
75,000	258.00	442.21	71.40%	380.30	47.40%
100,000	345.50	592.21	71.41%	509.05	47.34%

**Typical Bill Analysis**  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,179	\$ 19.65	\$ 29.63	\$ 9.98	50.77%
Median Usage	3,318	15.47	22.65	\$ 7.19	46.47%
<b>Staff Recommended</b>					
Average Usage	5,179	\$ 19.65	\$ 29.20	\$ 9.55	48.60%
Median Usage	3,318	15.47	22.50	\$ 7.04	45.52%

**Present & Proposed Rates (Without Taxes)**  
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 11.00	\$ 16.00	45.45%	\$ 16.86	53.27%
1,000	12.25	17.82	45.47%	18.36	49.88%
2,000	13.50	19.64	45.48%	19.86	47.11%
3,000	14.75	21.46	45.49%	21.36	44.81%
4,000	17.00	25.21	48.29%	24.96	46.82%
5,000	19.25	28.96	50.44%	28.56	48.36%
6,000	21.50	32.71	52.14%	32.16	49.58%
7,000	23.75	36.46	53.52%	35.76	50.57%
8,000	26.00	40.21	54.65%	39.36	51.38%
9,000	28.25	46.21	63.58%	44.51	57.56%
10,000	30.50	52.21	71.18%	49.66	62.82%
11,000	34.00	58.21	71.21%	54.81	61.21%
12,000	37.50	64.21	71.23%	59.96	59.89%
13,000	41.00	70.21	71.24%	65.11	58.80%
14,000	44.50	76.21	71.26%	70.26	57.89%
15,000	48.00	82.21	71.27%	75.41	57.10%
16,000	51.50	88.21	71.28%	80.56	56.43%
17,000	55.00	94.21	71.29%	85.71	55.84%
18,000	58.50	100.21	71.30%	90.86	55.32%
19,000	62.00	106.21	71.31%	96.01	54.85%
20,000	65.50	112.21	71.31%	101.16	54.44%
25,000	83.00	142.21	71.34%	126.91	52.90%
30,000	100.50	172.21	71.35%	152.66	51.90%
35,000	118.00	202.21	71.36%	178.41	51.19%
40,000	135.50	232.21	71.37%	204.16	50.67%
45,000	153.00	262.21	71.38%	229.91	50.27%
50,000	170.50	292.21	71.38%	255.66	49.95%
75,000	258.00	442.21	71.40%	384.41	49.00%
100,000	345.50	592.21	71.41%	513.16	48.53%



**Clear Springs Utility Company, Inc. - Wastewater Division**  
**Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401**  
**Test Year Ended December 31, 2010**

Surrebuttal Testimony of Jeffrey M. Michlik

**TABLE OF CONTENTS TO SCHEDULES**

<u>SCH #</u>	<u>TITLE</u>
JMM-WW1	REVENUE REQUIREMENT
JMM-WW2	GROSS REVENUE CONVERSION FACTOR
JMM-WW3	RATE BASE - ORIGINAL COSTS
JMM-WW4	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
JMM-WW5	ORIGINAL COST RATE BASE ADJUSTMENT # 1 - RECLASSIFICATION OF PLANT
JMM-WW6	ORIGINAL COST RATE BASE ADJUSTMENT # 2 - PLANT NOT USED AND USEFUL
JMM-WW7	ORIGINAL COST RATE BASE ADJUSTMENT # 3 - CASH WORKING CAPITAL
JMM-WW8.1	ORIGINAL COST RATE BASE ADJUSTMENT # 4 - CUSTOMER DEPOSITS
JMM-WW8.2	ORIGINAL COST RATE BASE ADJUSTMENT # 5 - ADVANCES IN AID OF CONSTRUCTION
JMM-WW8.3	ORIGINAL COST RATE BASE ADJUSTMENT # 6 - CONTRIBUTIONS IN AID OF CONSTRUCTION
JMM-WW9	OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED
JMM-WW10	SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR
JMM-WW11	OPERATING INCOME ADJUSTMENT # 1 - WASTEWATER TESTING EXPENSE
JMM-WW12	OPERATING INCOME ADJUSTMENT # 2 - DEPRECIATION EXPENSE
JMM-WW13	OPERATING INCOME ADJUSTMENT # 3 - PROPERTY TAX EXPENSE
JMM-WW14	OPERATING INCOME ADJUSTMENT # 4 - INCOME TAX EXPENSE
JMM-WW15	OPERATING INCOME ADJUSTMENT # 5 - CUSTOMER DEPOSIT INTEREST
JMM-WW16	CASH FLOW ANALYSIS
JMM-WW17	RATE DESIGN
JMM-WW18	TYPICAL BILL

**Clear Springs Utility Company, Inc. - Wastewater Division**  
**Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401**  
**Test Year Ended December 31, 2010**

**Surrebuttal Schedule JMM-WW1**

**REVENUE REQUIREMENT**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	(A) COMPANY FAIR VALUE	(B) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ (13,244)	\$ (16,893)
2	Adjusted Operating Income (Loss)	\$ 9,556	\$ 8,070
3	Current Rate of Return (L2 / L1)	-72.15%	-47.77%
4	Required Rate of Return	N/M	N/M
5	Required Operating Income (L4 * L1)	\$ 9,556	\$ 8,070
6	Operating Income Deficiency (L5 - L2)	\$ -	\$ (0)
7	Gross Revenue Conversion Factor	1.0000	1.2892
8	Required Revenue Increase (L7 * L6)	\$ -	<b>\$ (0)</b>
9	Adjusted Test Year Revenue	\$ 47,802	\$ 47,802
10	Proposed Annual Revenue	\$ 47,802	\$ 47,802
11	Required Increase in Revenue (%)	0.00%	0.00%

N/M = Not Meaningful

References:

Column (A): Company Schedule A-1

Column (B): Staff Schedules JMM-WW3 and JMM-WW9

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
-------------	-------------	-----	-----	-----	-----

Calculation of Gross Revenue Conversion Factor:

1	Revenue	100.0000%
2	Uncollectible Factor	0.0000%
3	Revenues (L1 - L2)	100.0000%
4	Combined Federal and State Income Tax and Property Tax Rate (Line 18)	22.4303%
5	Subtotal (L3 - L4)	77.5697%
6	Revenue Conversion Factor (L1 / L5)	1.289162

Calculation of Effective Tax Rate:

7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%
8	Arizona State Income Tax Rate	6.9680%
9	Federal Taxable Income (L7 - L8)	93.0320%
10	Applicable Federal Income Tax Rate (Line 48)	15.0000%
11	Effective Federal Income Tax Rate (L9 x L10)	13.9548%
12	Combined Federal and State Income Tax Rate (L8 + L11)	20.9228%

Calculation of Effective Property Tax Factor

13	Unity	100.0000%
14	Combined Federal and State Income Tax Rate (L12)	20.9228%
15	One Minus Combined Income Tax Rate (L13-L14)	79.0772%
16	Property Tax Factor (JMM-WW12, L27)	1.9063%
17	Effective Property Tax Factor (L15*L16)	1.5075%
18	Combined Federal and State Income Tax and Property Tax Rate (L12+L17)	22.4303%

19	Required Operating Income (Schedule JMM-WW1, Line 5)	\$ 8,070
20	Adjusted Test Year Operating Income (Loss) (JMM-WW9, L35)	8,070
21	Required Increase in Operating Income (L19 - L20)	\$ -
22	Income Taxes on Recommended Revenue (Col. [C], L47)	\$ 2,135
23	Income Taxes on Test Year Revenue (Col. [A], L47)	2,135
24	Required Increase in Revenue to Provide for Income Taxes (L22 - L23)	(0)
25	Recommended Revenue Requirement (Schedule JMM-WW1, Line 10)	\$ 47,802
26	Uncollectible Rate	0.0000%
27	Uncollectible Expense on Recommended Revenue (L25*L26)	\$ -
28	Adjusted Test Year Uncollectible Expense	\$ -
29	Required Increase in Revenue to Provide for Uncollectible Exp. (L27-L28)	-
30	Property Tax with Recommended Revenue (Schedule JMM-WW13, L21)	\$ 2,734
31	Property Tax on Test Year Revenue (Schedule JMM-WW13, Line 17)	2,734
32	Increase in Property Tax Due to Increase in Revenue (L30-31)	(0)
33	Total Required Increase in Revenue (L21 + L24 + L29 + L32)	\$ (0)

Calculation of Income Tax:

	Test Year	Staff Recommended
34	Revenue (Schedule JMM-WW1, Col. [B], Line 9 & Sch. JMM-WW1, Col. [B] Line 10)	\$ 47,802
35	Operating Expenses Excluding Income Taxes	\$ 37,597
36	Synchronized Interest (L51)	\$ -
37	Arizona Taxable Income (L34 - L35 - L36)	\$ 10,205
38	Arizona State Income Tax Rate	6.9680%
39	Arizona Income Tax (L37 x L38)	\$ 711
40	Federal Taxable Income (L37- L39)	\$ 9,494
41	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 1,424
42	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -
43	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -
44	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -
45	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -
46	Total Federal Income Tax	\$ 1,424
47	Combined Federal and State Income Tax (L39 + L46)	\$ 2,135

48 Applicable Federal Income Tax Rate [Col. [C], L46 - Col. [A], L46] / [Col. [C], L40 - Col. [A], L40]

15.0000%

Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-WW3

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1 Plant in Service	\$ 355,470	\$ (495)	\$ 354,975
2 Less: Accumulated Depreciation	328,780	(37)	328,743
3 Net Plant in Service	<u>\$ 26,690</u>	<u>\$ (458)</u>	<u>\$ 26,232</u>
<u>LESS:</u>			
4 Contributions in Aid of Construction (CIAC)	\$ 87,976	\$ 44,041	\$ 132,017
5 Less: Accumulated Amortization	83,400	(307)	\$ 83,093
6 Net CIAC	<u>4,576</u>	<u>44,348</u>	<u>\$ 48,924</u>
7 Advances in Aid of Construction (AIAC)	40,658	(40,658)	-
8 Customer Deposits	-	225	225
9 Deferred Income Tax Credits	-	-	-
<u>ADD:</u>			
10 Working Capital Allowance	5,300	724	6,024
11 Deferred Regulatory Assets	-	-	-
12 Original Cost Rate Base	<u>\$ (13,244)</u>	<u>\$ (3,649)</u>	<u>\$ (16,893)</u>

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1 Reclassification of Plant	(C) ADJ #2 Plant Not Used and Useful	(D) ADJ #3 Cash Working Capital	(F) ADJ #4 Customer Deposits	(G) ADJ #5 AIAC	(H) ADJ #6 CIAC	(I) STAFF ADJUSTED
			Ref. Sch JMM-VW5	Ref. Sch JMM-VW6	Ref. Sch JMM-VW7	Ref. Sch JMM-VW8.1	Ref. Sch JMM-VW8.2	Ref. Sch JMM-VW8.3		
1		PLANT IN SERVICE:								
2	351	Organization Cost								
3	352	Franchise Cost								
4	353	Land and Land Rights	4,654							4,654
5	354	Structures and Improvements	9,999	(495)						9,504
6	355	Power Generation Equipment	51,208							51,208
7	360	Collection Sewers - Force	276,318							276,318
8	361	Collection Sewers - Gravity								
9	362	Special Collecting Structures								
10	363	Services to Customers	9,880							9,880
11	364	Flow Measuring Devices								
12	365	Flow Measuring Installations								
13	370	Receiving Wells								
14	371	Pumping Equipment	51,208							51,208
15	375	Resuse T&D								
16	380	Treatment and Disposal Equipment	487							487
17	381	Plant Sewers								
18	382	Outfall Sewer Lines								
19	389	Other Plant and Misc. Equipment								
20	390	Office Furniture and Equipment								
21	391	Transportation Equipment	863							863
22	393	Tools, Shop and Garage Equipment	2,061							2,061
23	394	Laboratory Equipment								
24	395	Power Operated Equipment								
25	398	Other Tangible Plant								
26		Total Plant in Service - Actual	355,470							354,975
27		Post Test-Year Plant								
28		Total Plant in Service	355,470	(495)						354,975
29		Less: Accumulated Depreciation	328,780	(37)						328,743
30		Net Plant in Service	26,690	(458)						26,232
31		LESS:								
32		Contributions in Aid of Construction (CIAC)	87,976					44,041		132,017
33		Less: Accumulated Amortization	83,400					(307)		83,093
34		Net CIAC (L39 - L40)	4,576					44,348		48,924
35		Advances in Aid of Construction (AIAC)	40,658				(40,658)			
36		Customer Deposits				225				225
37		Deferred Income Taxes								
38		ADD:								
39		Working Capital Allowance	5,300		724					6,024
40		Deferred Regulatory Assets								
41		Original Cost Rate Base	(13,244)	(458)	724	(225)	40,658	(44,348)		(16,893)

Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-WW5

**RATE BASE ADJUSTMENT NO. 1 - RECLASSIFICATION OF PLANT**

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]	
			COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED (Col A + Col B)	
1	355	Power Generation Equipment	\$	51,208	\$	(51,208)	\$	-
2	371	Pumping Equipment		-		51,208		51,208
3		Total	\$	51,208	\$	-	\$	51,208

Note: Since the existing depreciation rates adopted in the prior rate case are 5.00 percent for both Power Generation Equipment and for Pumping Equipment, there is no corresponding adjustment to accumulated depreciation.

References:

Column [A]: Company Application  
Column [B]: Testimony JMM  
Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-WW6

**RATE BASE ADJUSTMENT NO. 2 - PLANT NOT USED AND USEFUL**

LINE NO.	ACCT NO.	DESCRIPTION	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	354	Structures and Improvements	\$ 9,999	\$ (495)	\$ 9,504
2					
3		Accumulated Depreciation	\$ 328,780	\$ (37)	\$ 328,743

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Cash Working Capital	\$ 5,300	\$ 724	\$ 6,024
2				
3	<u>Staff's Calculation of Cash Working Capital</u>			
4	1/24th Purchased Power	\$ 138		
5	1/8th Operation & Maintenance Expense	4,284		
6	Materials and Supplies Inventories	1,602		
7	Total Cash Working Capital	\$ 6,024		

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]



Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-WW8.1

RATE BASE ADJUSTMENT NO. 4 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		Service Per Company	Staff Adjustment	Per Staff (Col A + Col B)
1	Customer Deposits	\$ -	\$ 225	\$ 225

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-WW8.2

RATE BASE ADJUSTMENT NO. 5 - ADVANCES IN AID OF CONSTRUCTION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		Per Company	Staff Adjustment	Per Staff (Col A + Col B)
1	Advances in Aid of Construction (AIAC)	\$ 40,658	(40,658)	\$ -

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - CONTRIBUTIONS IN AID OF CONSTRUCTION

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		Per Company		Staff Adjustment		Per Staff (Col A + Col B)	
1	Contributions in Aid of Construction (CIAC)	\$	87,976	\$	44,041	\$	132,017
2	Less: Accumulated Amortization		83,400		(307)		83,093
3	Net CIAC	\$	4,576	\$	44,348	\$	48,924

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>					
2	Flat Rate Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
3	Measured Revenues	47,372	-	47,372	(0)	47,372
4	Other Wastewater Revenues	430	-	430	-	430
5	Intentionally Left Blank	-	-	-	-	-
6	<b>Total Operating Revenues</b>	<b>\$ 47,802</b>	<b>\$ -</b>	<b>\$ 47,802</b>	<b>\$ (0)</b>	<b>\$ 47,802</b>
7						
8	<u>OPERATING EXPENSES:</u>					
9	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
10	Purchased Wastewater Treatment	-	-	-	-	-
11	Sludge Removal Expense	-	-	-	-	-
12	Purchased Power	3,313	-	3,313	-	3,313
13	Fuel for Power Production	-	-	-	-	-
14	Chemicals	-	-	-	-	-
15	Materials and Supplies	939	-	939	-	939
16	Office Supplies	431	-	431	-	431
17	Contractual Services - Professional	23,270	-	23,270	-	23,270
18	Contractual Services - Other	-	-	-	-	-
19	Water Testing	-	2,751	2,751	-	2,751
20	Transportation Expense	341	-	341	-	341
21	Insurance Expense	-	-	-	-	-
22	Rate Case Expense	3,500	-	3,500	-	3,500
23	Miscellaneous Expense	-	-	-	-	-
24	Depreciation Expense	1,128	(824)	304	-	304
25	Taxes Other than Income	-	-	-	-	-
26	Property Taxes	2,734	(0)	2,734	(0)	2,734
27	Income Taxes	2,529	(394)	2,135	(0)	2,135
28	Interest on Customer Deposits	61	(47)	14	-	14
29	<b>Total Operating Expenses</b>	<b>\$ 38,246</b>	<b>\$ 1,486</b>	<b>\$ 39,732</b>	<b>\$ (0)</b>	<b>\$ 39,732</b>
30	<b>Operating Income (Loss)</b>	<b>\$ 9,556</b>	<b>\$ (1,486)</b>	<b>\$ 8,070</b>	<b>\$ (0)</b>	<b>\$ 8,070</b>

References:

Column (A): Company Schedule C-1

Column (B): Schedule JMM-WW10

Column (C): Column (A) + Column (B)

Column (D): Schedules JMM-WW1, JMM-WW14 and JMM-WW15

Column (E): Column (C) + Column (D)

Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

## SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Water Testing Expenses ADJ #1 Ref: Sch JMM-WW11	[C] Depreciation Expense ADJ #2 Ref: Sch JMM-WW12	[D] Property Tax Expense ADJ #3 Ref: Sch JMM-WW13	[E] Income Tax Expense ADJ #4 Ref: Sch JMM-WW14	[F] Customer Deposit Interest ADJ #5 Ref: Sch JMM-WW15	[G] STAFF ADJUSTED
1	REVENUES:							
2	Fiat Rate Revenues	\$ -	-	-	-	-	-	-
3	Measured Revenues	47,372	-	-	-	-	-	47,372
4	Other Wastewater Revenues	430	-	-	-	-	-	430
5	Intentionally Left Blank	-	-	-	-	-	-	-
6	Total Operating Revenues	\$ 47,802	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,802
7								
8	OPERATING EXPENSES:							
9	Salaries and Wages	\$ -	-	-	-	-	-	-
10	Purchased Wastewater Treatment	-	-	-	-	-	-	-
11	Sludge Removal Expense	-	-	-	-	-	-	-
12	Purchased Power	3,313	-	-	-	-	-	3,313
13	Fuel for Power Production	-	-	-	-	-	-	-
14	Chemicals	-	-	-	-	-	-	-
15	Materials and Supplies	939	-	-	-	-	-	939
16	Office Supplies	431	-	-	-	-	-	431
17	Contractual Services - Professional	23,270	-	-	-	-	-	23,270
18	Contractual Services - Other	-	-	-	-	-	-	-
19	Water Testing Expense	-	2,751	-	-	-	-	2,751
20	Transportation Expense	341	-	-	-	-	-	341
21	Insurance Expense	-	-	-	-	-	-	-
22	Rate Case Expense	3,500	-	-	-	-	-	3,500
23	Miscellaneous Expense	-	-	-	-	-	-	-
24	Depreciation Expense	1,128	-	(824)	-	-	-	304
25	Taxes Other than Income	-	-	-	-	-	-	-
26	Property Taxes	2,734	-	-	(0)	-	-	2,734
27	Income Taxes	2,529	-	-	-	(394)	-	2,135
28	Interest on Customer Deposits	61	-	-	-	-	(47)	14
34	Total Operating Expenses	\$ 38,246	\$ 2,751	\$ (824)	\$ (0)	\$ (394)	\$ (47)	\$ 39,732
35	Operating Income (Loss)	\$ 9,556	\$ (2,751)	\$ 824	\$ 0	\$ 394	\$ 47	\$ 8,070

Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-WW11

OPERATING ADJUSTMENT NO. 1 - WASTEWATER TESTING EXPENSE

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Water Testing Expense	\$ -	\$ 2,751	\$ 2,751

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A]		[B]		[C]		[D]		[E]	
			PLANT In SERVICE Per Staff		NonDepreciable PLANT (See Note 1)		DEPRECIABLE PLANT (Col A - Col B)		DEPRECIATION RATE		DEPRECIATION EXPENSE (Col C x Col D)	
1	351	Organization Cost	\$	-	\$	-	\$	-	0.00%	\$	-	-
2	352	Franchise Cost	\$	-	\$	-	\$	-	0.00%	\$	-	-
3	353	Land and Land Rights	\$	4,654	\$	4,654	\$	-	0.00%	\$	-	-
4	354	Structures and Improvements	\$	9,504	\$	-	\$	9,504	3.33%	\$	316	-
5	355	Power Generation Equipment	\$	-	\$	-	\$	-	5.00%	\$	-	-
6	360	Collection Sewers - Force	\$	276,318	\$	266,052	\$	10,266	2.00%	\$	205	-
7	361	Collection Sewers - Gravity	\$	-	\$	-	\$	-	2.00%	\$	-	-
8	362	Special Collecting Structures	\$	-	\$	-	\$	-	2.00%	\$	-	-
9	363	Services to Customers	\$	9,880	\$	-	\$	9,880	2.00%	\$	198	-
10	364	Flow Measuring Devices	\$	-	\$	-	\$	-	10.00%	\$	-	-
11	365	Flow Measuring Installations	\$	-	\$	-	\$	-	10.00%	\$	-	-
12	370	Receiving Wells	\$	-	\$	-	\$	-	3.33%	\$	-	-
13	371	Pumping Equipment	\$	51,208	\$	45,916	\$	5,292	12.50%	\$	662	-
14	375	Resuse T&D	\$	-	\$	-	\$	-	2.50%	\$	-	-
15	380	Treatment and Disposal Equipment	\$	487	\$	-	\$	487	5.00%	\$	24	-
16	381	Plant Sewers	\$	-	\$	-	\$	-	5.00%	\$	-	-
17	382	Outfall Sewer Lines	\$	-	\$	-	\$	-	3.33%	\$	-	-
18	389	Other Plant and Misc. Equipment	\$	-	\$	-	\$	-	6.67%	\$	-	-
19	390	Office Furniture and Equipment	\$	-	\$	-	\$	-	6.67%	\$	-	-
20	391	Transportation Equipment	\$	863	\$	863	\$	-	20.00%	\$	-	-
21	393	Tools, Shop and Garage Equipment	\$	2,061	\$	-	\$	2,061	5.00%	\$	103	-
22	394	Laboratory Equipment	\$	-	\$	-	\$	-	10.00%	\$	-	-
23	395	Power Operated Equipment	\$	-	\$	-	\$	-	5.00%	\$	-	-
24	398	Other Tangible Plant	\$	-	\$	-	\$	-	10.00%	\$	-	-
32		Total Plant	\$	354,975	\$	317,485	\$	37,490		\$	1,508	
33												
34		Composite Depreciation Rate:		2.50%		See Note 2						
35		CIAC:	\$	40,741		See Note 2						
38.6			\$	1,019								
40.6												
42.5		Composite Depreciation Rate:		2.00%		See Note 2						
44.5		CIAC:	\$	9,264		See Note 2						
46.5			\$	185								
48.4												
50.4		Total Lines 39 + 46	\$	1,204								
52.3												
54.3		Depreciation Expense Before Amortization of CIAC:	\$	1,508								
56.3		Less Amortization of CIAC:	\$	1,204								
58.2		Test Year Depreciation Expense - Staff:	\$	304								
60.2		Depreciation Expense - Company:	\$	1,128								
62.2		Staff's Total Adjustment:	\$	(824)								

**Note 1:** For accounts 360, and 371 the Company recognizes a portion of the original cost balance as fully depreciated. See Company Schedule C-2Sb.

**Note 2:** The Company in its rebuttal testimony proposes to separately track CIAC accounts.

References:

Column [A]: Schedule JMM-WW4  
Column [B]: From Column [A]  
Column [C]: Column [A] - Column [B]  
Column [D]: Engineering Staff Report  
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.		[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 47,802	\$ 47,802
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	95,604	\$ 95,604
4	Staff Recommended Revenue, Per Schedule JMM-1	47,802	\$ 47,802
5	Subtotal (Line 4 + Line 5)	143,406	143,406
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	47,802	\$ 47,802
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	95,604	\$ 95,604
10	Plus: 10% of CWIP -	-	-
11	Less: Net Book Value of Licensed Vehicles	-	\$ -
12	Full Cash Value (Line 9 + Line 10 - Line 11)	95,604	\$ 95,604
13	Assessment Ratio	20.5%	20.5%
14	Assessment Value (Line 12 * Line 13)	19,599	\$ 19,599
15	Composite Property Tax Rate (Per Company Schedule)	13.9486%	13.9486%
16			\$ -
17	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 2,734	
18	Company Proposed Property Tax	2,734	
19			
20	Staff Test Year Adjustment (Line 17-Line 18)	\$ (0)	
21	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 2,734
22	Staff Test Year Adjusted Property Tax Expense (Line 17)		\$ 2,734
23	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ (0)
24			
25	Increase to Property Tax Expense		\$ (0)
26	Increase in Revenue Requirement		(0)
27	Increase to Property Tax per Dollar Increase in Revenue (Line 25/Line 26)		1.906309%

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]



Clear Springs Utility Company, Inc. - Wastewater Division  
Docket Nos. WS-01689A-11-0402 and W-01689A-11-0401  
Test Year Ended December 31, 2010

Surrebuttal Schedule JMM-WW14

OPERATING INCOME ADJUSTMENT NO. 4 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Income Tax Expense	\$ 2,529	\$ (394)	\$ 2,135

References:

Column (A), Company Schedule C-1

Column (B): Column [C] - Column [A]

Column (C): Schedule JMM-WW2

OPERATING ADJUSTMENT NO. 5 - CUSTOMER DEPOSIT INTEREST

Line No.	Description	[A]	[B]	[C]
		COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Interest on Customer Deposits	\$ 61	\$ (47)	\$ 14

References:

Column [A]: Company Application

Column [B]: Testimony JMM

Column [C]: Column [A] + Column [B]

**CASH FLOW ANALYSIS - WASTEWATER**

Line

No.

1	<b>Cash Inflows</b>		
2	Revenue	\$	47,802
3			
4	<b>Cash Outflows</b>		
5	Salaries and Wages	\$	-
6	Purchased Wastewater Treatment	\$	-
7	Sludge Removal Expense	\$	-
8	Purchased Power	\$	3,313
9	Fuel for Power Production	\$	-
10	Chemicals	\$	-
11	Materials and Supplies	\$	939
12	Office Supplies	\$	431
13	Contractual Services - Professional	\$	23,270
14	Contractual Services - Other	\$	-
15	Water Testing	\$	2,751
16	Transportation Expense	\$	341
17	Insurance Expense	\$	-
18	Rate Case Expense	\$	3,500
19	Miscellaneous Expense	\$	-
20	Depreciation Expense	\$	304
21	Taxes Other than Income	\$	-
22	Property Taxes	\$	2,734
23	Income Taxes	\$	2,135
24	Interest on Customer Deposits	\$	14
25	Total Expenses	\$	39,732
26			
27	<b>Operating Income</b>	\$	8,070
28			
29	Plus Depreciation Expense	\$	304
30	Less: AIAC Refunded in Test Year	\$	83
31	Less: WIFA Loan Payment Interest	\$	-
32	Less: WIFA Loan Payment Principle	\$	-
33	<b>Cash Flow from Operations</b>	\$	8,291

Rate Design

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
Residential	\$ 6.50	\$ 9.00	\$ 9.00
Commercial	6.50	9.36	9.36
<u>Commodity Charge - Per 1,000 Gallons</u>			
All Usage (per 1,000 gallons applies to both Residential and Commercial)	0.8500	N/A	N/A
Residential (After 6,000 gallons of water use)	N/A	0.8500	N/A
Commercial	0.8500	0.8500	0.8500
Residential			
First 6,000 gallons	N/A	N/A	0.0000
6,001 to 20,000 gallons	N/A	N/A	1.0000
Over 20,001 gallons	N/A	N/A	0.0000
<u>Other Service Charges</u>			
Establishment	\$ 10.00	\$ 30.00	\$ 30.00
Reconnection (Delinquent)	*	*	*
Deposit - Residential	**	**	**
Deposit - Commercial	**	**	**
Deposit Interest (Per Annum)	**	**	**
NSF Check	\$ 15.00	\$ 25.00	\$ 25.00
Deferred Payment (Per Month)	N/A	1.50%	1.50%
Late Payment Penalty (Per Month)	N/A	2.00%	1.50%
After Hours Service Charge	N/A	\$ 25.00	\$ 25.00
Sewer Tap Charge (Non-refundable)	Cost	Cost	Cost
* Per Commission Rule A.C.C. R-14-2-603(D)			
**Per Commission Rule A.C.C. R14-2-603(B)			

Other Rates and Charges by Order:

In Addition to the Collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with R14-2-409.D.5.

**Typical Bill Analysis**  
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	4,763	\$ 10.55	\$ 9.00	\$ (1.55)	-14.68%
Median Usage	3,226	9.24	9.00	\$ (0.24)	-2.62%
<b>Staff Recommended</b>					
Average Usage	4,763	\$ 10.55	\$ 9.00	\$ (1.55)	-14.68%
Median Usage	3,226	9.24	9.00	\$ (0.24)	-2.62%

**Present & Proposed Rates (Without Taxes)**  
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 6.50	\$ 9.00	38.46%	\$ 9.00	38.46%
1,000	7.35	9.00	22.45%	9.00	22.45%
2,000	8.20	9.00	9.76%	9.00	9.76%
3,000	9.05	9.00	-0.55%	9.00	-0.55%
4,000	9.90	9.00	-9.09%	9.00	-9.09%
5,000	10.75	9.00	-16.28%	9.00	-16.28%
6,000	11.60	9.00	-22.41%	9.00	-22.41%
7,000	12.45	9.85	-20.88%	10.00	-19.68%
8,000	13.30	10.70	-19.55%	11.00	-17.29%
9,000	14.15	11.55	-18.37%	12.00	-15.19%
10,000	15.00	12.40	-17.33%	13.00	-13.33%
11,000	15.85	13.25	-16.40%	14.00	-11.67%
12,000	16.70	14.10	-15.57%	15.00	-10.18%
13,000	17.55	14.95	-14.81%	16.00	-8.83%
14,000	18.40	15.80	-14.13%	17.00	-7.61%
15,000	19.25	16.65	-13.51%	18.00	-6.49%
16,000	20.10	17.50	-12.94%	19.00	-5.47%
17,000	20.95	18.35	-12.41%	20.00	-4.53%
18,000	21.80	19.20	-11.93%	21.00	-3.67%
19,000	22.65	20.05	-11.48%	22.00	-2.87%
20,000	23.50	20.90	-11.06%	23.00	-2.13%
25,000	27.75	25.15	-9.37%	23.00	-17.12%
30,000	32.00	29.40	-8.13%	23.00	-28.13%
35,000	36.25	33.65	-7.17%	23.00	-36.55%
40,000	40.50	37.90	-6.42%	23.00	-43.21%
45,000	44.75	42.15	-5.81%	23.00	-48.60%
50,000	49.00	46.40	-5.31%	23.00	-53.06%
75,000	70.25	67.65	-3.70%	23.00	-67.26%
100,000	91.50	88.90	-2.84%	23.00	-74.86%



**BEFORE THE ARIZONA CORPORATION COMMISSION**

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CLEAR SPRINGS UTILITY CO., INC., )  
FOR AN INCREASE IN RATES )

DOCKET NO. WS-01689A-11-0402

\_\_\_\_\_)  
IN THE MATTER OF THE APPLICATION OF )  
CLEAR SPRINGS UTILITY COMPANY, INC. )  
FOR AUTHORITY TO INCUR LONG-TERM )  
DEBT )  
\_\_\_\_\_)

DOCKET NO. W-01689A-11-0401

SURREBUTTAL

TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 31, 2012

## **TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
I. INTRODUCTION .....	1
II. WATER TESTING COSTS .....	1
III. LEAKAGE AT WELL HEAD AND PRESSURE TANK.....	3
IV. PLANT ITEMS NOT IN USE.....	4



**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Are you the same Dorothy Hains who has previously filed testimony in this Clear Springs Utility Co. ("Company") Water Division and Wastewater Division rate proceeding?**

A. Yes.

**Q. What is the purpose of your Surrebuttal Testimony?**

A. In my Surrebuttal Testimony I will respond to the following issues related to the Company's water division raised in the Company's Rebuttal Testimony: (1) water testing costs, (2) water leakage at well head and pressure tank, and (3) plant items not in use.

**II. WATER TESTING COSTS**

**Q. The Company argues that Staff's recommendation of \$10 per sample for bacteria testing is too low. The Company believes that the unit cost of bacteria testing is at least \$25 per test. Do you agree with the Company? Please explain.**

A. Staff agrees that \$10 is too low and has adjusted the unit cost for bacteria testing to \$20 per test based on the invoices<sup>1</sup> included in the Company's application. Staff's revised water testing cost tables are listed below.

---

<sup>1</sup> Turner Laboratories, Inc., who conducted bacteria tests for the Company, charges \$20 per test



Note

#1: The Costs are combination of expenses of System (PWS #02-050), System (PWS #02-051) and System (PWS #02-048).

#2 Testing frequencies are based on ADEQ monitoring requirement.

#3 Based on invoice dated August 30, 2010 from Turner, cost for testing one total coliform sample is \$20/unit.

**Q. The Company argues that radiochemical testing costs are \$430 instead of Staff's recommended \$60 per sample and that nitrate testing costs are \$35 per sample instead of Staff's recommended \$25 per sample. Do you agree? Please explain.**

A. No. Staff has found that the cost of radiochemical testing varies from \$50 to \$85 per sample depending on the laboratory used. The full battery radiochemical tests would be approximately \$430 but the full battery of radiochemical testing is not necessary for routine monitoring and reporting purposes. Staff believes that a unit cost of \$60 per sample is reasonable. Furthermore, the radiochemical test cost has been included in MAP expense. Staff believes that a unit cost for of \$25 per sample for nitrate testing is also reasonable. Staff is aware of laboratories that charge \$15 per sample for testing nitrate. Therefore, Staff's recommended unit costs for radiochemical and nitrate testing remains the same.

### **III. LEAKAGE AT WELL HEAD AND PRESSURE TANK**

**Q. In its Direct Testimony Staff recommended that the Company repair the leaks that Staff observed during its field inspection at the wellhead of Well No. 5 and at the pressure tank at Well No. 18. The Company claims that these leaks have already been repaired and that the Company notified Staff of these repairs, does Staff agree?**

A. Yes. The Company provided photos and invoices to demonstrate that the leaks had been repaired.

1 **IV. PLANT ITEMS NOT IN USE**

2 **Q. The Company disagrees with Staff's position that Well No. 16 and its associated**  
3 **plant items were not used and useful. Does Staff agree with the Company? Please**  
4 **explain.**

5 A. No. Well No. 16 was not in service during the test year or at the time of Staff's field  
6 inspection, therefore, Staff considers Well No. 16 not used and useful to the Company's  
7 provision of water service. During the field inspection of Well No. 16 in February 2012,  
8 Staff observed that the power company meter had been removed, power supply conductors  
9 had been disconnected from the well pump, the well turbine pump had been disconnected  
10 for repair and the on-site pressure tank had also been disconnected. Therefore, Well No.  
11 16, its well pump, its control panel, and the pressure tank were "not used and useful" to  
12 the Company's provision of service at the time of Staff inspection. Therefore, Staff's  
13 conclusion regarding these plant items has not been changed.

14  
15 **Q. Does the Company have adequate water production to serve its existing customers**  
16 **without Well No. 16?**

17 A. Yes. The Company has adequate production to serve existing customers in PWS #02-008  
18 without well No. 16.

19  
20 **Q. Does this conclude your Surrebuttal Testimony?**

21 A. Yes, it does.